



**Patrick Minford**  
*'The exchange rate matters no more than the price of cocoa'*  
 Page 32



**Samuel Brittan**  
*'Maastricht is dead without the ERM'*  
 Page 14

**European bond markets**  
*How they would weather mini monetary union*  
 Page 20



**EC merger policy**  
*Resisting the pressure to compromise*  
 Page 14

FT NEWSPAPER  
 of THE YEAR

# FINANCIAL TIMES

Europe's Business Newspaper MONDAY SEPTEMBER 28 1992 D8523A

## Trans-Alpine rail tunnel plan gets Swiss backing

Swiss voters endorsed a plan for modernising trans-Alpine transport by a surprisingly large 63.5 per cent majority in a national referendum. The SFA (Société Fédérale des Autorités) scheme to build two rail tunnels totalling 50 miles, running south towards the Italian border, could be the forerunner of a trans-European trend to transfer large amounts of freight traffic from the roads to the railways. Page 16

**Nigerian air crash kills 163:** A Nigerian Air Force C-130 Hercules transport aircraft crashed after take-off from Lagos, killing all 163 people on board. Most were thought to be military officers attending the Command and Staff College in northern Kaduna State. Page 7

**World airlines** are expected to set up a task force under the auspices of the International Air Transport Association to develop international accounting guidelines after a survey revealed wide disparities in accounting policies and financial disclosures of airlines. Page 16

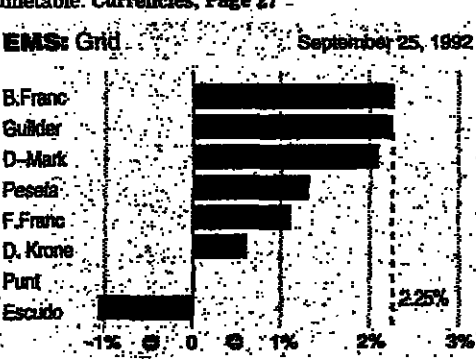
**Labour spokesman quits:** Bryan Gould, heretofore spokesman for the UK's opposition Labour party, resigned from the 'shadow' cabinet over the party's pro-Maastricht policy. Page 16

**Virgin Atlantic Airways founder** Richard Branson may help to rescue Dan-Air, the UK-based airline which was saved from collapse less than a year ago. Page 17

**Maxwell businesses:** Sales of most of the remaining businesses controlled by the late Mr Robert Maxwell, including Macmillan and Official Airlines Guide in the US, are moving towards final preparation. Page 17

**Romanian elections:** Exit polls showed voters had resisted opposition calls to ditch old-guard communist leaders, leaving President Ion Iliescu well ahead in the presidential contest but short of an overall majority needed to win outright.

**European Monetary System:** The peseta moved from the bottom of the European Monetary System's grid to the top last week after Spain protected its currency by imposing exchange controls. The peseta then returned to the bottom after Spanish share prices collapsed in the wake of the move. The central banks' determined defence of the French franc helped it join the ranks of the strongest currencies. The top four currencies are in a position to move quickly towards monetary union, while those below could adopt a slower timetable. Currencies. Page 27



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. The Spanish peseta and Portuguese escudo operate with a 6 per cent fluctuation band.

**BCCI 'bribe' probe:** The UK's Serious Fraud Office and the US authorities are investigating allegations that at least two Bank of England officials took bribes from senior executives of the now-collapsed Bank of Credit and Commerce International during the 1980s. Page 8

**Bosnia fighting intensifies:** Rival sides in Bosnia's civil war reported heavy attacks on towns in the north and west of the former Yugoslav republic, indicating an intensified drive to gain territory before winter closes in. Cold winter looms. Page 4

**Kenya loans:** Kenya said multilateral lending to the country, suspended for nearly a year, is expected to resume shortly, after its performance under a revised reform programme was broadly endorsed by the International Monetary Fund and the World Bank. Page 7

**Spanish spending curbs:** Spain's Socialist administration is preparing to mount its most determined effort in 10 years in government to curb public spending after approving a draconian 1993 budget. Page 3

**Fresh floods sweep France:** Fresh storms moved across southern France, leaving three people dead and several missing. Page 3

**10 die in bus crash:** Ten people died and nine were injured when a coach and a truck were involved in a head-on collision in central Spain. The bus, with 16 passengers, was on route from Tomelloso in the province of Ciudad Real, south of Madrid, to the eastern coastal city of Valencia.

**Golfing first:** Patty Sheehan of the US became the first player to win the US and British Women's Opens in the same year at Auburn.

**Formula One record:** Nigel Mansell of the UK won the Portuguese Grand Prix and eclipsed the record of Ayrton Senna with his ninth Formula One victory in a single season. Senna set the record of eight wins in a single season in 1988, in winning his first of three world championships.

Pressure for modified Maastricht deal ■ Doubts remain about weaker currencies

## Major faces split over Europe

By Philip Stephens, Political Editor, in London

MR JOHN MAJOR, the UK prime minister, faced renewed divisions within his cabinet over European integration yesterday amid signs that the government's hopes of ratifying the Maastricht treaty now rest on an EC-wide agreement to devolve more authority from Brussels.

As the government struggled to re-establish a semblance of unity on its European policy, ministers said that a declaration underwriting the principle of "subsidiarity" could be signed at the Edinburgh summit in December.

The declaration, which would be attached to the Maastricht

agreement, would flesh out the treaty's brief reference to decentralising decision-making.

Mr Major, who will promote the idea at separate meetings on Wednesday with Mr François Mitterrand, the French president, and Mr Poul Schlüter, the Danish prime minister, hopes the commitment will reassure enough Tory waverers to allow him to press ahead with ratification.

The ministers predicted that EC leaders would be persuaded at next month's summit to give the British presidency a mandate to draft such a declaration.

But the scale of the prime minister's task in filling the policy vacuum left by sterling's enforced departure from the

VAT accord hopes.....Page 3  
 What's wrong with the Euro.....Page 14  
 Editorial Comment.....Page 14  
 High-speed train to EMU gathers steam.....Page 17  
 A German strategy for Britain.....Page 21  
 Monday Interview: Patrick Minford.....Back Page Section II

accept that Britain's reluctance to say when sterling would return to the ERM could prompt an inner core of countries around Germany and France to establish a fast track to monetary union.

But, speaking on ITV's *Walden* programme, Mr Howard insisted that "British interests" would be paramount in deciding the government's stance.

His comments, along with a statement that sterling's re-entry to the ERM would be considered only after the mechanism had been reformed, jarred with enthusiastically pro-European statements by two other ministers.

Mr John Gummer, the agriculture secretary, told BBC radio: "There is no future for Britain in

some sideline. We are in the centre of Europe and we intend to stay there." Disputing Mr Howard's comment that the suspension of ERM membership offered opportunities for Britain, Mr Gummer said the real issue was whether the government wanted to be buffeted by the effect of strong economies and currencies with no say in the decisions shaping events.

But Sir Marcus Fox, chairman of the influential backbench committee of Conservative MPs, was among senior Tory MPs ready to cast doubt on support for Maastricht and the ERM. There were also calls from a number of MPs for the government to "get a grip" on its strategy.

## EC finance chiefs aim to restore confidence in ERM

By Lionel Barber in Brussels

EC finance ministers hold talks in Brussels today aimed at restoring confidence in the exchange rate mechanism and repairing the damage caused by heavy speculation against weaker member currencies.

The meeting is expected to discuss the apparent success of the joint Franco-German intervention to preserve the parity of the franc, as well as the temporary exchange control measures introduced by Spain, Ireland and Portugal to prevent funds flowing into the D-Mark.

Although these measures restored a semblance of stability to the ERM, there are continuing doubts about the position of weaker currencies. These doubts have fuelled speculation in the money markets about a possible ERM realignment, or a joint Franco-German initiative to form a group of "hard-core" currencies to reduce the margins of fluctuation within the ERM.

In spite of official denials in Bonn and Paris that such an initiative is being contemplated, senior officials in both capitals have raised the prospect of a "two-speed" Europe if Britain delays ratification of the Maastricht treaty on political and monetary union.

Mr Bertie Ahern, Irish finance minister, made clear yesterday that Ireland was determined to stick with the hard-core bloc of France, Germany and the Benelux countries, even if it meant raising interest rates to defend the punt.

Mr Ahern told the Irish Sunday Independent that he opposed a two-speed Europe: "The idea of a fast and slow lane is not in anyone's interest."

Mr Norman Lamont, the UK chancellor of the exchequer and a strong defender of the decision to float the pound rather than raise interest rates within the ERM, will chair today's meeting.

The talks are billed as an important preparation for the

## Buthelezi withdraws from talks on future of S Africa

By Patti Waldmeir in Durban

CHIEF Mangosuthu Buthelezi, leader of the Zulu Inkatha Freedom Party, yesterday withdrew his party from talks on a new South African constitution, throwing into doubt prospects for the early installation of a multi-racial interim government.

In a fiery speech at a rally in honour of Shaka, the 19th-century Zulu king, Chief Buthelezi insisted Inkatha "will not be bound by decisions reached in bilateral negotiations between the government and the African National Congress".

Only hours earlier, Mr F.W. de Klerk, the South African president, and Mr Nelson Mandela, president of the African National Congress (ANC), had ended three months of bitter acrimony by committing themselves to putting an interim government in place as soon as possible.

At a peace summit held outside Johannesburg on Saturday, they agreed to resume constitutional negotiations suspended since June.

Chief Buthelezi said Inkatha and the KwaZulu government (which he heads) "are not marginalised", adding menacingly "and it's my sincere hope that we will not have to prove the reality



Zulu Inkatha Freedom party leader Mangosuthu Buthelezi (left) and Zulu King Goodwill Zwelithini at yesterday's rally

of the statement". Fighting between Inkatha and the ANC for political ascendancy in the township has killed some 14,000 people since the mid-1980s.

He accused the ANC of indulging in Yugoslavia-type "ethnic cleansing" and "anti-Zulu racism" in seeking action against migrant worker hostels, frequent flashpoints in township wars.

The government and the ANC agreed at the weekend that some hostels would be fenced and patrolled by police, but the Zulu

leader said hostel inmates would tear down such fences "with their bare hands if needs be".

He rejected restrictions on the carrying of dangerous weapons, also agreed at the weekend, saying any attempt to impose them on the Zulus would lead to more violence. He threatened Inkatha would boycott any elections held in the present climate.

The Zulu leader's withdrawal damped the euphoria of Saturday's agreement at which Mr Mandela said he hoped would

send a "signal of hope" to South Africans.

"We have begun today to rescue our people from [this] chaos", he said. Mr de Klerk, too, pledged rapid progress toward a post-apartheid constitution, and underlined this by making big concessions on issues such as the

release of political prisoners, and on his demand for an amnesty for security force personnel.

As part of the deal, three ANC guerrillas convicted of terrorist crimes against white civilians are to be freed later today, along

Continued on Page 16  
 S Africa's third man, Page 15

## Head office of Italian bank may have approved Iraq loans

By Alan Friedman in New York and Robert Graham in Rome

TWO FORMER executives of Italy's Banca Nazionale del Lavoro (BNL) have claimed that the bank's head office in Rome approved some of the more than \$5bn of illegal loans to Iraq made during the 1980s by the bank's Atlanta branch.

The disclosures contradict the central premise of the US government's fraud case against Mr Christopher Drogoul, the former Atlanta branch manager who may be sent to prison this week by a US federal judge.

The Atlanta prosecutors, backed by the Bush administration, argued no one in Italy knew about the Atlanta operation and Mr Drogoul was the sole orchestrator of the loans, which helped to finance President Saddam Hussein's nuclear, chemical and missile projects.

Yet two former senior BNL executives have told the FT there were at least eight different mid-level and senior BNL colleagues in Italy who were involved in the Atlanta loans affair.

Mr Arthur Wade, the chief US investigator in the BNL case, admitted under questioning in

court last week that the US Department of Justice had balked at a visit to conduct interviews with BNL executives in Rome. Mr Wade said no US investigator in the case had travelled to Italy.

Both of the former BNL executives who gave the detailed briefings have asked that they should not be named. One executive said that between 1987 and 1989 he directed to Mr Drogoul in Atlanta over five Italian companies seeking BNL loans to back exports to Iraq. He said: "We knew there was an open line of credit to Iraq that was being run by our Atlanta branch. We were told that the highest levels of BNL wanted us to give privileged treatment to Iraq."

"Baghdad was an important client of the bank. When the exporters came to us in Italy we arranged for Atlanta to open and confirm letters of credit for exports to Iraq. Some of the loans were returned to Italy and approved and countersigned."

The former BNL executive, now in a senior position at another institution, said there were seven other current and former BNL executives "who know it is simply not true that Mr Drogoul acted alone".

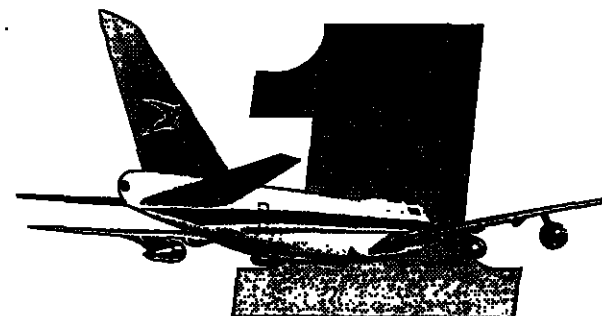
Two mid-level BNL executives even met Mr Drogoul during visits to Baghdad to work on the restructuring of previous Iraqi debts, which were repaid 50 per cent in dollars and 50 per cent in Iraqi dinars, he claimed.

"BNL was the main payments mechanism for many US and European exports to Iraq. We were told inside the bank not to worry too much about credit risk because a large portion of the farm loans were being guaranteed by the US government. There was also political cover in Rome for the bank," the former executive claimed.

In Rome three Italian senators have asked parliament for a commission to be set up to investigate the BNL-Atlanta affair and establish whether Italian companies obtained BNL financing for military contracts with Iraq and if any Italian officials were aware of the loans.

Mr Giampiero Cantoni, the current chairman of BNL, said that once the scandal came to light the bank's board was changed and his new administration had made no attempt to cover up. He described any such suggestions, already made in court in Atlanta, as "totally false".

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## NEWS: INTERNATIONAL

# Amato stakes his future on budget

By Robert Graham in Rome

THE determination of the Amato government to introduce a tough austerity budget for 1993 will be tested this week as trade union protest gathers momentum and the political parties seek to impose amendments.

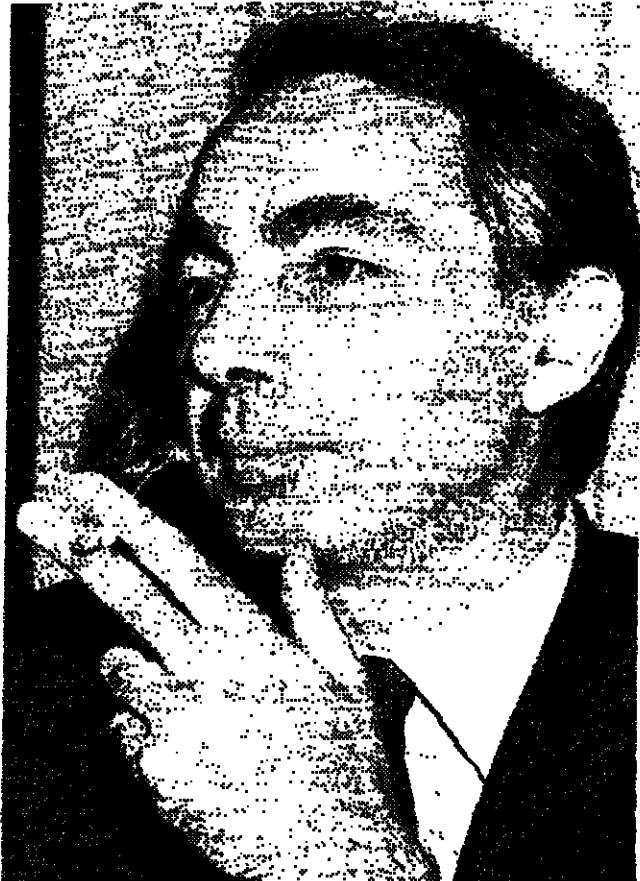
Mr Giuliano Amato, the Socialist prime minister, repeated over the weekend in even stronger language than before that he would resign if the budget was watered down. But the trade union leadership, encouraged by last week's support for rolling regional four-hour general strikes to protest at proposed welfare cuts, looks set to call a nationwide stoppage early next month. This week there will be more regional general strikes, with the promise of other stoppages in specific sectors.

At the same time both the Christian Democrat and Socialist party bosses, central to the stability of the fragile four-party coalition government, are pledged to submit a long list of changes to soften the impact of the budget.

The 1993 outline budget proposes to raise L93,000bn (£74.6bn) in new revenues and spending cuts. The protests focus on proposals to make the first real cuts in the system of public welfare established after the war. The government is proposing to cap pensions payments as part of a wider reform to extend the pensionable age to 65 and limit the level of state funding. A big shake-up of the health service is also on the books.

Mr Amato says the present welfare state - generous and inefficient - risks bankrupting the economy. Italy, he insists, must be seen tackling this problem if it is to regain international credibility.

In an interview in the daily *La Repubblica* yesterday, Prof Amato warned bluntly: "We are in an extremely difficult situation. The government has put before parliament measures it deems both adequate and indispensable. If parliament says they are not indispensable and cuts them back,



Amato: facing a tough test

it is clear at this point that neither the government nor parliament is capable of getting out of this storm. Thus it is useless to stay on because there is nothing left to do."

Last week Mr Amato said he intended to put the 1993 budget to a vote of confidence in parliament to speed the debate and concentrate politicians' minds on the disastrous state of Italy's public finances. Both the government and the Bank of Italy recognise approval of the budget is necessary before the lira can return to the European Monetary System, from which it withdrew 11 days ago.

The main pressure to water down the budget is coming from the unions, which claim the burden of sacrifice will be borne by those most vulnerable. But the scale of the pro-

tests last week, the biggest and most violent street demonstrations since the 1970s, suggests other grievances are in play. The unions are concerned about big impending job losses and the disappearance of indexed wages at a time when devaluation of the lira risks raising inflation.

To underline Italy's deteriorating finances, the treasury at the week-end published figures showing the public sector deficit had reached L88,000bn by the end of July, a 29 per cent increase on the same period the previous year.

Since then, with the advent of under the Amato government, the deficit has risen less than L3,000bn. But the annual budget deficit is now unlikely to be less than L180,000bn, over 11 per cent of GDP.

## Alleged offences committed under Common Agricultural Policy Italy urged to probe beef 'fraud'

By Jimmy Burns

A ROW is developing within the EC over the apparent failure of Italy to pursue vigorously evidence of an alleged Common Agricultural Policy fraud.

British customs investigators are understood to have told EC officials of their growing frustration with the apparent refusal of their Italian counterparts to move against a company engaged in a suspected fraud involving EC subsidised beef intended for the CIS.

The suspicions of EC investigators were aroused earlier this year when traders reported difficulty in selling beef in European markets because of competition from cut-price products.

In May, UK customs officers

seized a consignment of 150 tonnes of Irish beef. The beef, found in a warehouse in the port of Runcorn near Liverpool, was about to be sold within the UK at just below prevalent market prices, although it had been exported to Italy for processing and canning for delivery to the CIS at a heavily subsidised EC rate.

In recent weeks, UK customs has investigated a number of UK companies in connection with the sale of the beef, but have ruled out criminal action against any of them. Instead they have passed on documentation and other evidence to EC inspectors and Italian officials which in their view should have led to early action against at least one Italian company.

"We believe there is enough to act on, and the Commission is of the same view," one customs official said. Italian officials are believed to have visited the company concerned but have so far refused to launch a formal investigation or make any arrests.

According to EC and customs officials, the suspected fraud is typical of a growing problem as farmers and exporters cheat the taxpayer under the Common Agricultural Policy.

An EC report last month estimated that nearly 600 new cases, involving more than £100m (\$171m) were uncovered by the 12 EC states last year. The problem is identified in a report sent to British members of parliament and tabled for a

House of Commons debate next month.

According to the Commission, the UK reported the largest number of cases - 131, worth over £2m, of which £2.5m has been recovered. The largest amount appeared to be in Italy, where £70m was discovered but only £4m recovered.

Ten days ago, Italy and France called for increased co-operation between EC members to fight organised crime in Europe under the banner of the Maastricht Treaty.

According to UK officials however, EC states disagree over how to translate this commitment into the arrest and conviction of suspected criminals, partly because of inconsistent judicial procedures.

## German fire investigation continues

GERMAN police said yesterday a fire that on Friday gutted a building commemorating Jews who died at the Sachsenhausen death camp was started by a human hand, but could not say yet whether neo-Nazi arsonists were guilty, Reuters reports from Berlin.

However Mr Ignatz Bubis, chairman of the Central Council of Jews in Germany, was certain neo-Nazi militants torched the barracks in Oranienburg, north of Berlin.

He demanded the barracks be restored and said any failure by politicians firmly to oppose neo-Nazi violence would encourage militants to step up their attacks.

"It is a disgrace for Germany that a memorial for murdered Jews is burned down," the Jewish leader said in Bonn.

There were no immediate statements from Bonn politicians on the incident.

Police said their investigation had established the fire was started by somebody either by accident or on purpose. Final results would be released today.

## Payment dispute over Danish terminal likely

By Paul Abrahams in Helsinki

FRAUGHT negotiations over financing for a new DKr5.5bn (\$1.47bn) airport terminal at Copenhagen are expected to start in the next few days between Scandinavian Airlines System and Copenhagen Airports, the state-owned Danish airports authority.

Neither Copenhagen Airports, nor SAS, which wants exclusive use of the new terminal, appears willing to pay for the building. The terminal is planned to have a capacity of between 15m and 20m passengers a year. The airport, the main hub of SAS's traffic system, has an annual capacity of 15m but at present handles only 12m passengers a year.

Mr Peter Hoeland, managing director of SAS Denmark, said: "We do not see ourselves as airport investors. No airline, apart from Alitalia, is investing in airports. We expect the airports authority to do this."

SAS has recently presented Copenhagen Airports with its plans for the highly sophisticated and automated terminal

which could make Copenhagen more attractive to transit passengers. SAS wants the airport to become northern Europe's main hub. It is at present Europe's 8th largest in terms of passengers.

Mr Neils Boserup, chief executive of Copenhagen Airports, said: "Only SAS can justify an investment of DKr5.5bn. The proposed terminal is so advanced, it's not a building, it's a machine. An airline might be able to afford it, but we can't." Copenhagen Airports made pre-tax profits of DKr169.2m on turnover of DKr1.2bn for the 15 months to December 31 1991. SAS reported pre-tax profits for the first six months of 1992 at SKr502m on turnover of SKr16bn.

Mr Boserup is proposing an alternative terminal for use by all airlines. This building, which he describes as modern but more conventional than SAS's plan, would add about 7m passengers a year to existing capacity and would cost about DKr2bn. He said that if the SAS terminal was not

started during the next year, he would go ahead with the alternative plan. An investment of DKr5.5bn might cast a shadow over the future of Copenhagen Airports, which is due to be partly privatised.

Mr Hoeland at SAS said: "This is a major political challenge. The airport cannot carry such a large project on its balance sheet. However, a lot of financial instruments are available. In the very near future we will open negotiations with Mr Boserup on possible financial structures so we can implement this project. We will be looking for institutions, such as pension funds, which are prepared to look at a project with a perspective of 20 to 30 years."

If financing can be agreed, the first part of SAS's terminal should be ready by July 1997, said Mr Hoeland. The airline expects passenger traffic to increase significantly with the entry of Sweden and Finland into the EC, and the completion of motorway and high-speed train networks in Scandinavia.

## Unions in protest to Brussels

By David Goodhart, Labour Editor

EUROPEAN trade unions have protested to the European Commission at the withdrawal of a grant to help unions organise meetings on European works councils.

Unions have received £41m (\$65.7m) in the last year for organising such meetings, and had assumed that the payment would be repeated annually for several years. But the budget for 1993 drawn up by the Commission contains no provision for this.

Union leaders such as Mr Franz Steinkühler, leader of the German IG Metall union, fear this might represent a more general retreat from the social dimension of European integration.

The works councils, designed for informing and consulting workers on corporate strategy, have been established in about 20 EC-based multinationals and unions are pushing hard to set them up in many more.

In 1992 unions received about £50m from EC institutions or through the financing of union-friendly institutions.

The Financial Times (Europe) Ltd. Published by The Financial Times (Europe) GmbH, Frankfurt Branch, Nibelungenplatz 1, 6000 Frankfurt-am-Main 1. Telephone 0 69 158330. Fax 0 69 1594441. Telex 416193. Represented by E. Hugo, Managing Director, DVM GmbH-Hilfstrasse 67/68, 1000 Berlin. Responsible editor: Richard Lamborn, Financial Times, Number One Southwark Bridge, London SE1 9HL. The Financial Times Ltd, 1992.

Registered office: Number One, Southwark Bridge, London SE1 9HL. Company incorporated under the laws of England and Wales. Chairman: D.E.P. Palmer, Main shareholders: The Financial Times Limited, The Financial Times News Limited. Publishing director: J. Rolley, 188 Rue de Rivoli, 75004 Paris. Codes 01: Tel (01) 497 0621; Fax (01) 497 0629. Editor: Richard Lamborn. Printer: SA Nord Eclair, 1571 Rue de la Chapelle, 75004 Paris. Codes 1: ISSN: 1145-2753. Commission Paritaire No 67680D.

Financial Times (Scandinavia) Vimeksiafset 42A, DK-1101 Copenhagen-K, Denmark. Telephone (33) 13 44 41. Fax (33) 133135.

### ADVERTISEMENT

## The Future of Home Entertainment—Laser-Optical Format and Interactive Technology

### The Explosive Growth in Home Entertainment Technology

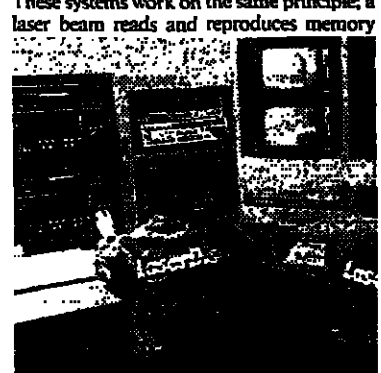
New technology for home entertainment is advancing at a rate most of us can hardly fathom. From home audio visual (AV) systems to computers, a wave of new technology has appeared over the past decade, bringing vast improvements. But the speed of these developments has also created confusion in many people's minds during recent years. Significant developments have taken place not only in terms of new functions on existing equipment, but also in the proliferation of new technology. We've seen the rise of the video cassette recorder (VCR), compact disc (CD), laser disc (LD), digital audio tape (DAT), mini disc (MD), digital compact cassette (DCC), CD-ROM, and CD-I, just to name a few, and who knows what may come next? This brings up all sorts of questions: Which of today's "state of the art" technology is most promising, and which will be tomorrow's version of the 8-track tape player? Which technology will be compatible with other technology? And there is finally the question of software. Will the best quality hardware necessarily have a full range of accessible software? These are important questions. But for most people, the questions don't stop at just trying to understand the technology. Consumers also need to differentiate between the makers of the different equipment, especially since many simultaneously develop competing technology.

### Pioneer's Leadership in Laser-Optical Technology

With all the confusing and sometimes conflicting claims, Pioneer Electronic is one maker that is easy to differentiate. A leader in laser-optical technology, Pioneer is dedicated to this format. More than twenty years ago, before the first VCR was even on the market, Pioneer had

already recognized the superiority of this format for AV home entertainment. And it has pursued this technology relentlessly. In 1980, it offered its first mass produced optical video disc player, which is commonly referred to as the laser disc (LD) player. And it has remained an innovator in the field.

Today, most people have some knowledge of laser-optical technology due to CD. But actually the first system to employ laser technology was LD. Although not as well known as CD, LD is rising in both popularity and stature, and in many respects holds the greatest potential for enhancing the quality and convenience of home entertainment. These systems work on the same principle: a laser beam reads and reproduces memory



Professional studios and broadcasting stations rely on Pioneer's VDR-V1000 for its fast access time and excellent sound and image quality.

signals from a disc. The advantages are significant: quick random access, consistently high reproduction quality, and excellent software durability. But the fundamental distinction between the two is LD's greater capacity; it produces high quality moving visuals in combination with the superior sound of CD.

Pioneer is one of only a few electronics makers with a strong commitment to the



Pioneer incorporates high-density recording and reproducing technologies in many of its product development programs related to optical disc systems.

laser-optical format. In 1984, it announced one of the most important developments in laser technology: the world's first compatible CD/LD player, a system capable of playing either CD or LD. The advantages have proven tremendous. By developing technology that was compatible with existing hardware and software, this system was easily adopted as the central unit in an integrated home AV system.

Pioneer has continued to make important advances in the field. Most importantly is the ability to write (record), something tape has done for years, but has only recently been available for laser. Pioneer was the first to accomplish this (1989), and today its recordable laser video disc system, VDR-V1000, is used professionally—most notably by American and Japanese TV stations which need to edit news and sport programs instantly. And in late 1992, the VDR-V1000 will be available in Europe in the PAL format. Because this system incorporates separate optical heads for recording and erasing, these operations can be done simultaneously, providing average access time of only 0.3 seconds. And discs for this system allow over 1 million erase/record operations, and can hold as much as 32 minutes of visual motion while maintaining excellent sound and image quality. No other type of system approaches this level of performance.

With professional applications such as advanced, one can well imagine that consumer use is not far behind. Currently, Pioneer is developing a recordable CD system and a recordable LD system for home use. In addition, Pioneer is working to keep its laser systems compatible with technological developments in other areas of home entertainment. The best example is with High Definition Television (HDTV). Pioneer has already developed and marketed a high definition LD system for Japan.

For the future digital era, Pioneer is developing new technology for both LD and CD that will dramatically increase the amount of information that can be stored on a disc. One such development is called compression technology, which will allow information for visual motion to be stored on a disc digitally. This will allow a CD sized disc to include lengthy visual motion. In addition, Pioneer's accumulated knowledge through its many years of laser-optical work will allow it to make improvements in high density

recording in terms of both hardware, with a shorter wavelength laser, optical pick-up and servocontrol technology, and software discs.

Pioneer's commitment to laser technology is no arbitrary decision: the high potential of laser

perfectly matches its corporate philosophy. Above all else, Pioneer is interested in improving the quality and potential of home entertainment. And of all today's technology, laser is the ideal means of accomplishing this goal. Pioneer is unwilling to market any technology at the expense of losing any degree of sight and sound reproduction quality. Even if some new development seems to offer the promise of a minor new consumer benefit, Pioneer will not pursue it if it means making sacrifices in overall quality.

### The Wave of the Future—Laser Disc and Interactive Technology

The future belongs to laser technology. Not only because of the superior sight and sound quality and greater convenience provided by its greater memory and access time. But also because of laser's promising future at the centre of integrated, fully compatible home entertainment systems. We are not far from a time when all facets of home entertainment, from AV to the computer, will be fully integrated. And an essential part of this system's foundation will be laser-optical technology.

The primary technology that will enable laser to move into this position is CD-ROM (Compact Disc Read Only Memory). One of the operations offered by CD-ROM is "interactivity" between user and machine. This is referred to as CD-I (Compact Disc Interactive). Here, a single disc holds all necessary control programs, and sound and image data to perform complex multimedia functions. With this kind of system, a person "interacts" with software, asking questions, playing computer-type games, working through a geography course, or even creating stories. And this technology holds even greater promise for the future. Once CD-I is capable of visual motion that meets high consumer standards, a viewer of a movie may be able to actively participate in story development and determine various endings. Among the many educational advantages is that students can learn by trial and error. One such possibility exists in biology

classes, where software programs can simulate a dissection.

Schools in Europe and the United States have included Pioneer educational AV programs in their curriculums to help stimulate the imaginations of students.

### ADVERTISEMENT

Encouraged by the high potential of CD-I, Pioneer took this one step further with LD-ROM, which incorporates the best aspects of CD, LD and CD-ROM. This system is capable of simultaneously offering high quality sound, high quality long running visual motion, and interactive applications. Currently CD has only about 540Mb of digital signal memory to store both audio and visual information, while LD has 540Mb of digital signal memory, plus analogue storage space for up to 60 minutes of visual motion.

Just as Pioneer believes that LD has the greatest potential for revolutionizing general home entertainment, it feels that LD-ROM can offer a new, more sophisticated form of home entertainment. LD-ROM is the most promising future technology for providing an interactive multimedia world that is simultaneously educational, fun, and personally fulfilling. It is the most feasible way to combine high quality video images, CD sound, and system data information. And for the foreseeable future, this will remain the case.

### Pioneer's Dedication to The Art of Entertainment



Throughout the world, Pioneer has a growing reputation for offering state-of-the-art technology that is shaping the future.

Pioneer is on the leading edge of improving home entertainment through the advancement of laser-optical technology. To explore this potential to the fullest, a company must do more than just build great hardware. It must also be intimately involved in the myriad applications of its hardware. And it must have a vision of how technology best suits the needs of the future.

A couple of years ago, Pioneer adopted a new brand slogan, "The Art of Entertainment". The philosophy behind this slogan is that state of the art technology needs to be directed at creating vivid, true-to-life experiences for all people. It means working towards a future in which technology will continue to play a fulfilling role for everyone the world over.

**PIONEER**  
The Art of Entertainment





Carlos Solchaga: testing unity

## Spanish cabinet concedes tough public spending curbs

By Peter Bruce in Madrid

SPAIN'S Socialist administration is preparing to mount its most determined effort in 10 years in government to curb public spending after approving a draconian 1993 budget at the weekend.

Caught in a fierce currency market attack on the peseta and waning popular support at home, and facing an election in, at most, 12 months, the cabinet has been forced to agree to demands by Mr Carlos Solchaga, the finance minister, that central government spending will increase only 3.7 per cent next year, a fall in real terms.

Prime Minister Felipe González has never before sanctioned such tough spending plans and has proba-

bly been persuaded to do so by the need to demonstrate to foreign exchange markets that Spain is serious about tackling its runaway deficits - so far this year the government has spent just short of double its 1992 budget - and to keep credible Spain's insistence that it will be among the first countries to join a European Monetary Union.

The draft budget slashes defence spending by 9 per cent and forecasts growth next year of about 1 per cent. Civil service pay is to increase by less than the forecast inflation rate of 4.7 per cent.

Inflation this year, Mr Solchaga said in announcing the measures, would end at about 6.4 per cent. The minister's budget will test the unity of the Socialist party, whose

polls show it is losing its parliamentary majority. Election campaigning has already begun, with both the Socialists and the leading regional parties in the Basque country and Catalonia - the government's most likely partners in any coalition - trying to distance themselves from one another.

A Catalan demand in particular - that Madrid hand over to the regional government nearly 20 per cent of tax revenues collected in the state - is threatening to poison the political atmosphere further.

In the meantime, the government is trying desperately to head off any possibility that France and Germany try to form a group of core EC countries to proceed with political and economic union without Spain.

Mr Solchaga will ask fellow EC finance ministers meeting in Brussels today to stick together and to agree on ways to end turbulence in the currency markets.

Spain has already devalued the peseta by 5 per cent in the past two weeks and is thought to be willing to participate in a further realignment of Exchange Rate Mechanism parties in order to avoid having to leave the ERM. Capital controls imposed by the Bank of Spain last week, to try to freeze speculation in the peseta, failed to lift the currency far off its ERM floor.

An agreement in Brussels this week, said Mr Solchaga at the weekend, "may or may not imply a realignment but we cannot go on like this and time is running out".



Felipe González: persuaded

## Optimism mounts over VAT accord

By Andrew Hill in Brussels

FRENCH and Spanish objections are still preventing adoption of a provisional accord on value-added tax and excise duties across the EC. But British and European officials in the Commission are optimistic a deal will be struck in the next few weeks.

Britain, which holds the EC presidency, had hoped the two countries would drop their reservations to the package by today's meeting of EC finance ministers.

To avoid rekindling the five-year political debate, the UK is aiming for technical agreement among national officials on outstanding points. The whole package of eight directives could then be rubber-stamped at any meeting of ministers.

A British diplomat said after last week's meeting of officials: "We're making progress, and the signs are quite good."

Finance ministers nearly reached unanimity on the package in July. It would impose, for example, a minimum binding standard VAT rate across the Community and lay out a framework for duties on tobacco, alcohol and mineral oils.

EC officials say formal adoption is essential to the single market. But they do not believe delays at this stage will hold up the opening of barriers, as Community VAT rates are in line with requirements of the package and a number of member states are expected to introduce legislation based on the main points of the July agreement.

The principal stumbling blocks are still French calls for a nominal "control levy" on wine and Madrid's wish to bring the duty on British sherry into line with that imposed on the Spanish product. The Netherlands is also said to have voiced concern about VAT on the repair of shoes and clothes, but the Commission and presidency are not going to add new problems to the existing French and Spanish reservations.

## Moscow faces policy attack from centrists

By John Lloyd in Moscow

THE Russian government has been served notice that it will face a concerted push to replace its policies, and probably most of its ministers, over the next two weeks.

Mr Arkady Volok, head of the Union of Industrialists and Entrepreneurs and one of the most powerful figures in the centrist Civic Union bloc, said at the weekend that the government's programme was "advantageous only to the International Monetary Fund".

He said the Civic Union would in the next 10 days present a programme entitled Liberal Reform and Strong Power, proposing administrative control of the market and the creation of a "Euro-Asiatic" union of six or seven of the members of the Commonwealth of Independent States.

The centrist tactics, to propose a return both to a modified command economy and a scaled-down union, is a direct challenge to the government of Mr Yegor Gaidar, the acting prime minister, which came to power to institute rapid market reform in a Russia shorn of former union entanglements.

The publication of this new

programme, backed by many of the parliamentary parties, business groups, trade unions and youth organisations, and co-led by General Alexander Rutskoi, the vice-president, will coincide with the meeting of the CIS heads of state in Bishkek, capital of Kyrgyzia, postponed from last Friday to October 9.

A proposal made by President Nursultan Nazarbayev of Kazakhstan for the kind of union referred to by Mr Volok "advantageous only to the International Monetary Fund".

This will mean that states such as Azerbaijan, Moldova and Ukraine, which have had an increasingly distant relationship with the CIS, are likely to be forced out - while the remainder become much more dependent on Russia.

Meanwhile, Mr Andrei Nekhayev, the economics minister, warned at the weekend that oil production - the export lifeline of Russia - would drop next year to about 340m tonnes from an estimated 397m this year, and possibly as low as 320m tonnes. Exports would fall from about 50m tonnes this year to about 45m tonnes, he said.

## Senate vote points to new cabinet

PARTIAL elections to the French Senate yesterday heralded a cabinet reshuffle, *Reuters* reports from Paris.

Mr Michel Charasse, Socialist budget minister, was elected in the first round of the poll for 103 senators, about a third of the house's 321 members. He recovers the seat he gave up when he joined the cabinet four years ago.

Mr Charasse, who is due to present the draft budget to the Senate this week, must under French law choose between the Senate and the cabinet within a month of his election. "I have said I would choose my mandate as a senator," he said.

Another member of the Socialist cabinet, Mr Jean-Marie Rausch, junior trade minister, was also running for a nine-year term as a senator. Full results of the polls were due late last night.

Yesterday's poll set the scene for a tough contest for the coveted post of Senate speaker, which 85-year-old centrist Mr Alain Poher is to relinquish on Friday after 24 years in the job.

The Senate speaker takes over the presidency, should the head of state be unable to carry on, for a two-month period until an election can be held.

## French TV given highbrow touch

By Alice Rawsthorn in Paris

VIEWERS switching on to France's fifth television channel at 7pm this evening will see Les Tambours d'Hiver (The Drummers of Winter), a documentary made two years ago on the musical rituals of the Loupik Indians, an obscure tribe in Alaska.

Les Tambours d'Hiver is not simply another documentary intended to add a sober touch to the soap operas and games shows that dominate French TV: it is also the first programme on Arte in its role as France's newest national television station.

Arte is an arts channel run

by a Franco-German joint venture, which provides one service in French and another in German but saves money by pooling programme purchasing.

It will, or so the French government hopes, become a role model for a new breed of European cultural channels.

For the past few months Arte's French service has been broadcast on the fledgling cable television network. Today it moves to a new, permanent slot on the fifth national channel, taking the place of La Cinq, the mainstream TV station which went bankrupt earlier this year.

La Cinq enjoyed a brief burst

of intellectual credibility for its current affairs coverage during the Gulf war, but was best known in France for its soft - and sometimes not so soft - pornographic programming. Arte, by contrast, is unashamedly highbrow.

This evening's schedule is typical. Les Tambours d'Hiver is followed by a documentary on Egyptology and Wings of Desire, an art movie by the German director Wim Wenders.

A vintage episode of Monty Python's Flying Circus, the 1970s cult British comedy, is thrown in for light relief.

Arte is coming on air at a difficult time. There is already

fierce competition for viewers among France's existing national channels and from the dozens of stations on the struggling cable system. The competition proved too much for La Cinq.

Meanwhile, Antenne 2 and FR3, the two state-controlled channels, are reeling part of their operations in an attempt to resolve financial problems.

So far Arte's management seems unabashed. Mr Pierre André Boutang, head of the French service, claims his channel has one big advantage over its competitors in that "at last viewers will have the chance to see something intelligent at prime time".

## Battered regions escape fresh storms

FRESH storms moved across southern France yesterday, leaving three people dead and several missing, *AP* reports from Paris.

But the rains eased before reaching regions battered last week by the deadliest floods on record in France.

Authorities said the worst damage from the new storms occurred in the departments of Aude and Pyrénées-Orientales, close to the eastern part of the French-Spanish border.

Rivers swollen by torrential rains over-

flowed their banks. In the Aude village of Rennes-les-Bains the floodwaters smashed a home, killing a 65-year-old woman and sweeping away two other people.

Floodwaters a meter deep were reported in parts of the city of Narbonne.

The national weather service had warned that severe storms could hit much of south-east France yesterday, but in most areas rain was too light to unleash any new flooding.

Flash floods on Tuesday in the south-

central departments of Vaucluse, Drome and Ardeche killed 38 people.

Vaucluse authorities yesterday lowered their estimate of missing people from 40 to 15, saying the others had been accounted for.

Officials said 150 homes in Vaucluse had been destroyed or seriously damaged, and 12 bridges washed away.

An overall valuation of the damage has not been released, but insurance companies have already arranged for payments totalling about FF9,900m (£112.25m).

## Brussels puts squeeze on the Dutch cartels

Ronald van de Krol on changes in a business culture



THE WORD "cartel" usually conjures up images of furtive meetings in smoky back rooms, where deals and agreements are struck far from the authorities' prying eyes.

In the Netherlands, however, the focal point of cartel-fixers is not some secret rendezvous but the "conference rooms, offices and corridors of the Ministry of Economic Affairs in The Hague. It is here that companies, business federations, agricultural product boards and retail associations have traditionally sent details of their cartels for inclusion in a register maintained by the ministry.

At last count the Netherlands had officially sanctioned more than 400 cartels. The exact details of the Dutch register are kept secret, but one ministry official says the sectors involved form a broad cross-section of the Dutch business community.

The cartels run the gamut from well-known agreements in the asphalt and construction industries to accords governing the production and sale of the lowly pearl onion. The agreements cover price levels, supply restrictions and product ranges.

Another favourite is the arrangement adopted by many retailers around the country: the by-laws of many shopping centres stipulate, for example, that the tenants may include only one shoe shop - to protect the livelihood of the sole purveyor of shoes in the complex.

However, the days of the Dutch cartel are clearly numbered.

Under pressure from the increasingly active competition policy being pursued by the European Community, the Netherlands is preparing to start banning three types of cartel practices from 1993 - horizontal price-fixing, market share-out arrangements, and tender arrangements which

allow prior consultation among businesses vying for the same order. "Traditional, defensive cartels will run into a red light," according to Ms Yvonne van Rooij, state secretary for economic affairs. "But the green light will continue to be given to positive and offensive cartels." Beneficial cartels, she said last week in a speech to a Rotterdam conference on the future of cartel policy, were ones designed to offer early, temporary protection to companies seeking to launch new technologies.

Surprisingly, perhaps, for a country which is a keen expo-

ner of European integration and harmonisation, Dutch cartel practice has always been fundamentally at odds with that of the EC and most of its EC partners.

The Netherlands, with its traditional emphasis on achieving consensus and avoiding conflict, has fostered a business culture in which companies, trade unions, government bodies and industry associations engage in constant and close consultations. The country has no anti-trust authority, preferring instead to emphasise self-regulation whenever possible.

Under a Dutch law of 1987 - issued at the height of post-war reconstruction, when co-operation among business was seen as the fastest route to economic strength - cartels are permitted unless they are deemed to be bad. Under the EC Treaty of Rome of 1958 cartels are banned in principle, although rare exceptions may be permitted.

This dichotomy surfaced early this year when the EC fined 7,000 Dutch builders for operating a 12-year-old cartel at the tender stage of building contracts. The cartel was conducted openly and appeared on the government's register of officially-condoned agreements, but the EC ordered it to be ended. An appeal by the Dutch construction industry is working its way through the European courts.

The cartel enabled builders to compare bids and then decide among themselves which company should be the "designated bidder" for a particular building project. The chosen candidate was required to ensure that the ultimate price of the building project included sufficient funds to reimburse the unsuccessful builders for the cost of drawing up their bids and producing supporting documentation, such as blueprints.

Builders, retailers and industrialists in the Netherlands bristle at the suggestion that the country is a cartel paradise. They believe cartels are just as prevalent in other countries but take place outside government control, making them more damaging.

The construction industry, for example, regards its now outlawed cartel as a "transaction structure" which provided for fair and efficient bidding without inflating building prices.

Mr Frans van Waarden, a Dutch sociologist at the University of Konstanz in southern Germany and a defender of cartels, believes "cartels are nothing other than a form of decentralised regulation compared with the centralised regulation provided by governments".

Be that as it may, the Dutch government has served notice it will start prohibiting entire categories of cartels next year, to bring the Netherlands into line with the EC.

By the mid-1990s the ministry's closely guarded cartel register is expected to have shrunk to just several dozen entries, from well over 500 at its peak.

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## Romanian ex-communist ahead of democratic opposition Iliescu set for re-election

By Virginia Marsh and  
Anthony Robinson  
in Bucharest

MR ION ILIESCU, the incumbent president of Romania, looked set for re-election last night as exit polls indicated a 48 per cent vote for the former high-ranking communist.

Mr Emil Constantinescu, his main rival, who represents Democratic Convention (DC), a loose alliance of 18 anti-communist opposition parties, polled 33 per cent, followed by Mr Gheorghe Funar, an anti-Hungarian nationalist, with 10 per cent.

If the exit polls are confirmed by the final results later this week, Mr Iliescu will face a second-round run-off for the presidency with Mr Constantinescu on October 11. This is according to Romanian electoral rules, which require an absolute majority of the country's 16m eligible voters for victory in the first round.

But the biggest uncertainty now hangs over the new parliament, where voters were faced with a choice among 91 political parties.

The exit polls showed that the Democratic National Salvation Front (DNSF), which supports Mr Iliescu, would emerge as the largest single parliamentary party with 27.5 per cent of the vote. But the DC, together with its ally, the ethnic Hungarian party, which won 7 per cent of the vote, would come out as the strongest single political group in both houses of the bicameral parliament with 30 per cent of the vote.

The exit poll, organised by Ipsop, a Romanian company, in collaboration with Infas of Germany, accurately forecast the results of Romania's first post-communist general elections in May 1990. Mr Iliescu then won 85 per cent of the popular vote in what was essentially a plebiscite celebrating the end of the tyrannical rule of Nicolae Ceausescu, who was executed with his wife Elena on Christmas Day 1989.

The absence of a clear majority in parliament indicates that a possibly long period of political horse-trading will now be needed before a new govern-



Romanian peasants sign up at a polling station before casting their votes in yesterday's parliamentary and presidential elections

ment emerges. It will replace the current caretaker government headed by Mr Theodor Stolojan, the non-partisan prime minister who has guided Romania through a difficult year of institutional and market reforms.

Mr Stolojan's market-or-

ient reforms have won the support of the IMF, which plans to send a follow-up team to Bucharest once the new government is formed. The IMF has already agreed a new loan deal but will need to be assured that the new government is capable of fulfilling

the terms. The new government will also have to convince the European Community that Romania remains on track for signature of an EC association agreement on similar lines to those already agreed with Czechoslovakia, Hungary and Poland.

## Yugoslav hyperinflation fear

By Laura Silber in Belgrade

DEEPENING economic turmoil in Yugoslavia could catapult the inflation rate to 21,000 per cent this year.

"If inflation is not stopped now, by January there will be a dizzying price rise and panic buying, Latin American-style," Mr Nebojsa Savic, a Belgrade University economics professor, told Politika, the main Serbian daily.

Belgrade economists say the economic situation will deteriorate sharply. The economy's downward spiral, precipitated by 16 months of war and the severing of economic ties with the other former Yugoslav republics, was hastened by United Nations sanctions.

Economics professor Ljubomir Madjar yesterday said Yugoslavia - Serbia and Montenegro - "has entered the realm of hyperinflation". He believed huge state spending coupled with reduced revenues would push inflation even higher.

The truncated Yugoslavia is supporting a massive army and 485,000 refugees from

Bosnia and Croatia. Industrial production has fallen by 30 per cent. Since sanctions, including an oil embargo, were imposed on May 31, at least 300,000 workers have been sent on compulsory holidays. Belgrade economists estimate that only a quarter of the 2.2m workforce will be employed by the end of the year.

Amid deepening economic deprivation, Serbia's ruling Socialists appear determined to cling to power. The Serbian parliament last week voted to hold a referendum aimed at cancelling state-wide elections set for November. President Slobodan Milosevic is at loggerheads with Prime Minister Milan Panic, who has pledged to stop the war in Bosnia and democratise Serbia. Mr Milosevic is seen by the international community as the chief instigator of the war and mounting international outrage at Serbian "ethnic cleansing" in Bosnia appears to have hardened his resolve to remain in power.

Against this background of economic collapse and battles in neighbouring Bosnia, international mediators Cyrus Vance

and Lord Owen visit Belgrade today to discuss "ethnic cleansing" by Serb forces of Muslims in Bosnia and evidence of stepped-up air attacks.

After visiting Banja Luka, a Serb stronghold in northern Bosnia, on Friday Lord Owen, the European Community envoy, said he and Mr Vance heard accounts of "systematic shelling" of 3,000 to 4,000 Muslim refugees who were driven from Banja Luka south-east to Travnik.

Fighting was reported throughout Bosnia yesterday. SRNA, the Bosnian Serb news agency, said 50 Serbs were killed in three days of fighting against Muslim forces in Milici, north-east of Sarajevo. It also said Serb forces seized control of Tjentiste, south-east of Sarajevo.

A Reuters aide from Islamabad: Bosnian President Alija Izetbegovic arrived in Pakistan yesterday and called on the Muslim world to help his people.

Islamabad last month gave Bosnia a \$20m (£11.6m) credit line, a special grant of \$10m and humanitarian assistance worth \$400,000.

UN sanctions have hit clothing sector hard, writes Judy Dempsey

## Cold winter looms for Serb textiles

MR Dragoslav Kojic

dreads the next few days. As manager of the Kluz textile factory in the south of Belgrade, he will have to tell his 3,000 employees that he is switching off the machines, turning off the lights, and closing the gates.

The United Nations sanctions imposed on Serbia in May have beaten him. "What can I do? I cannot export. I have no more stocks. I have run out of oil. I have no money to pay my staff," he says.

Kluz is just one of many textile factories in Serbia which have been forced to close or put their workers on half pay because of the sanctions. Indeed, the textile industry is probably the sector hit hardest by the UN's trade embargo.

This is because over the past two decades, the textile industry in Serbia had built up excellent contacts with German and Italian companies.

For instance designers, such as Boss, sent patterns, colours, cloth, thread and buttons to Kluz. In return, thanks to cheap labour and a highly skilled work force, Kluz was exporting practically 100 per cent of its finished product to its European partners. "We relied totally on the export market. Now this is closed to us," said Mr Kojic.

Before the sanctions, Kluz was recording a monthly turn-

over of DM4m (£1.5m). It had paid off its debts of over DM100m, and was looking forward to expanding. The sanctions have put paid to that.

"I am in contact with my German partners almost every day. My greatest fear is that they might start looking for new partners if the sanctions last for a long time. It is going to be difficult to recoup these markets," says Mr Kojic.

Outside Belgrade, the Serbian capital, the picture is grim.

Mr Gradimir Cvetkovic, general secretary of the Textiles Association of Serbia, says the Serbian government is to set up a social fund for the sector's workers.

Mr Cvetkovic knows that as winter approaches, and inflation continues to soar, these benefits will not go far.

"The sector, which covers textiles, shoes and leather goods, employs 200,000 people,

or about a quarter of the total labour force," he explains.

"It was also the most successful arm of the Serbian economy. Between 60 and 80 per cent of the industry's total turnover was earmarked for the export market. The sector accounts for 20 per cent of Serbia's total trade."

About 60 per cent of the textile industry's turnover was exported to the EC, and the rest to the US, eastern Europe and the former Soviet Union. Last year, textile exports from Serbia totalled \$1.1bn (£643.2m) and imports \$600m.

Both Mr Kojic and Mr Cvetkovic are pinning their hopes on Prime Minister Milan Panic. Mr Cvetkovic says that if the sanctions are not lifted in a month, he will find it difficult to support Mr Panic. Mr Kojic is less optimistic: "The sanctions will not be lifted for some

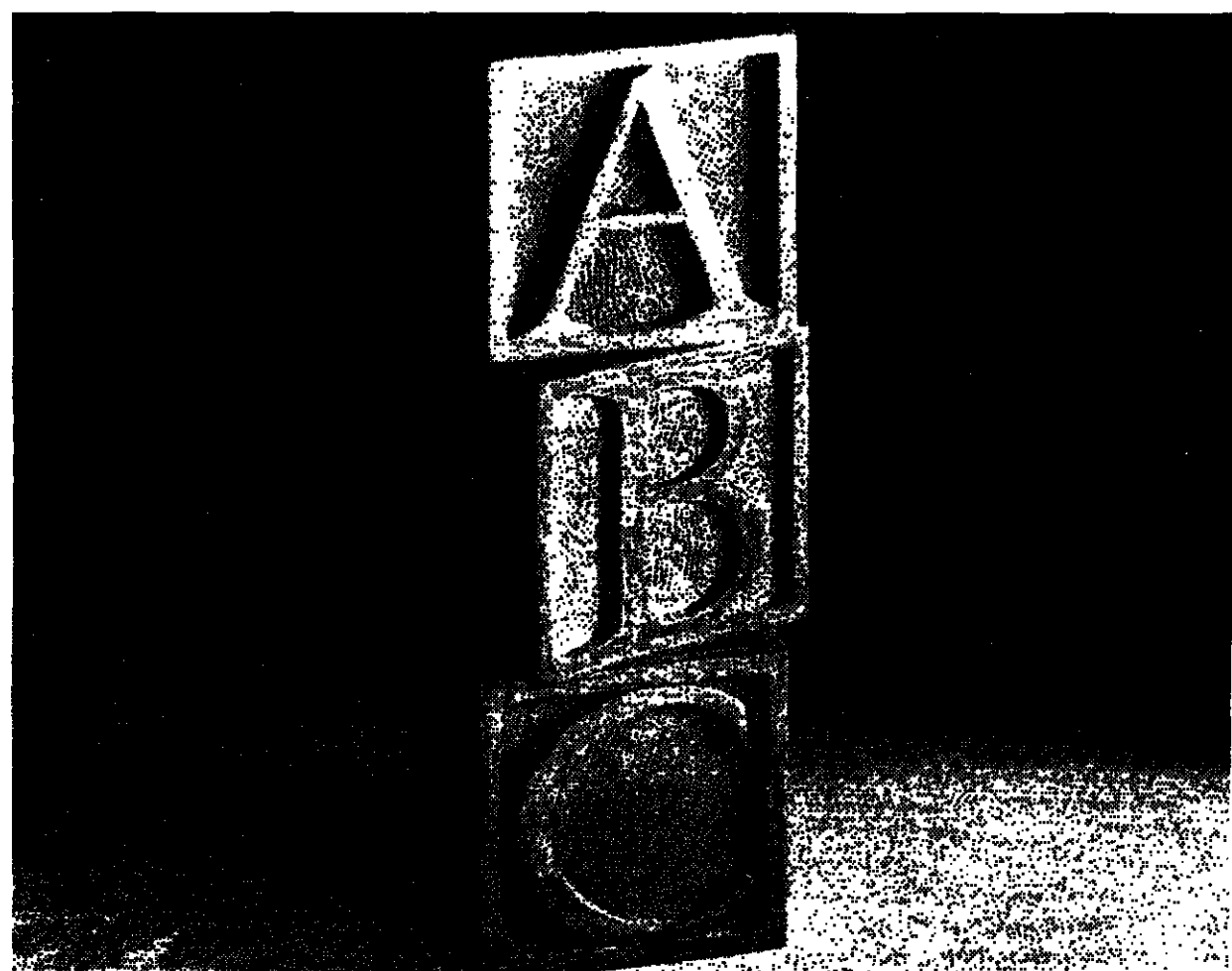
time. Everybody knows that. We must rally around Panic. He is our only hope, especially for the business community here in Serbia. They identify with Panic because he is a businessman," he said.

But in Centrotex, the top-heavy foreign trade organisation which represents about 500 Serbian and Montenegrin enterprises, the mood is stubborn, if not defiant.

"I do not trust Panic to help us," says Mr Branislav Bakovic, director of the shoes and sports department. "The main problem we face is oil. There's a little coming in from Greece. It is not enough. But I know the Serbs. We will sit this one out," he says.

But managers like Mr Kojic and Mr Cvetkovic are more realistic. "We have to change the mentality of the Serbs. For years they have been indoctrinated with communist nonsense and incompetence. What this republic needs is managers and entrepreneurs, not bureaucrats," says Mr Kojic.

Yet that view offers little succour to his workers in Kluz. Already, Mr Kojic has closed down three other factories in Serbia. "I do not know what to tell them. But they have to face the prospects of no work, a cold winter, and little to hope for. The months ahead are not going to be easy for any of us."



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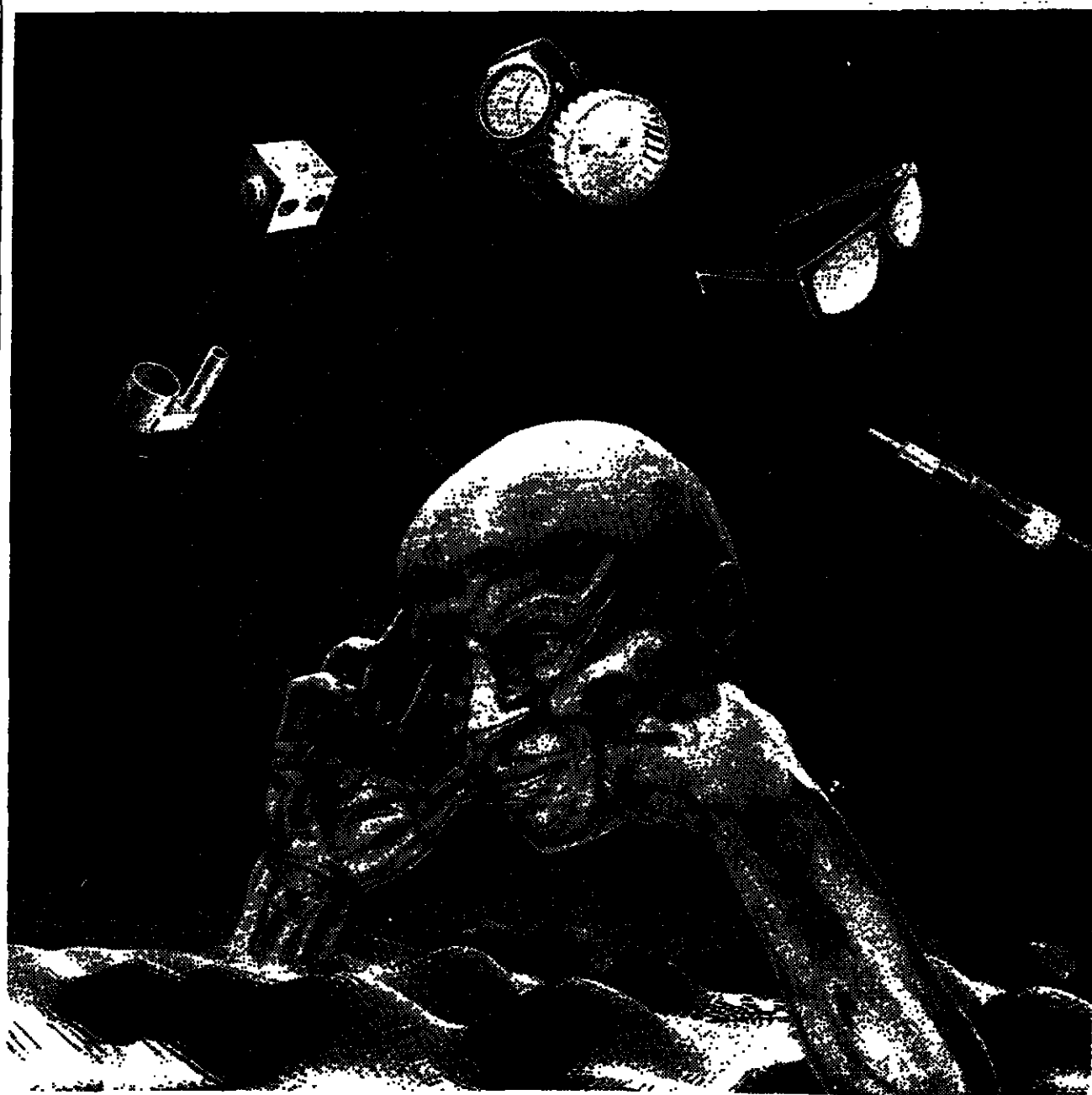
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# Bush fails to take brakes off campaign

By Jurek Martin, US Editor, in Washington

PRESIDENT George Bush's hopes of kicking his re-election campaign back into gear this weekend seem to have been frustrated on at least four counts, negating the impact of his whistle stop train swing through the important mid-western states of Ohio and Michigan.

Fresh accusations of his knowledge of the Iran-Contra affair have been made by a former White House aide, Mr Howard Teicher, who said he briefed the then vice president three times in the middle of 1986 about the "operational details" of the arms-for-hostages clandestine scheme.

Mr Bush has insisted he knew none of the details until December, and refused to answer all new questions over the weekend.

Second, attention has been diverted to Dallas and to today's national television, where Mr Ross Perot, the Texas billionaire, may announce whether he is entering the race. Signs from the Perot camp were hopelessly conflicting over the weekend, but delegations from both the Bush and Clinton campaigns are to address a meeting of his volunteers in Dallas.

Third, national and local public opinion polls continue to suggest that Governor Bill Clinton is consolidating his double digit lead. A Time-CNN survey at the weekend had him 12 points ahead, double the margin of earlier this month. Putting a Perot candidacy still left the Democratic contender 11 points up, while other recent polls also show Mr Perot's stature now much diminished.

An ABC survey found Mr Clinton ahead in 30 states, with 346 electoral college votes, and Mr Bush up in only 10, with 130 votes, with the balance undecided. A total of 270 votes is needed to win.

Finally, Mr Bush was possibly embarrassed by the resignation from his cabinet of Mr Edward Derwinski, the secretary for veterans' affairs. Mr Derwinski was unpopular with the Veterans of Foreign Wars, the ex-servicemen's association which had endorsed Mr Bush early in 1988 and which may have made the departure of the secretary contingent on backing this year.

Mr Bush's weekend message was that Mr Clinton would worsen the problems of the middle class by higher taxation. His campaign claims Mr Clinton's plan to increase taxes on the top 2 per cent (a couple earning \$200,000 a year and more) would be insufficient to help raise his targeted \$150bn in new revenues. To achieve that he would need to hit the top 8 per cent, earning \$80,000 plus a year, according to the Republicans.

## Polls continue to suggest Clinton is consolidating his lead

Mr Clinton, in New England, countered by saying that Mr Bush "has no credibility on taxes, everything he says is wrong."

He contrasted the fact that he had a plan, compiled with numbers from the Congressional Budget Office, whereas the president "just raises taxes on everybody."

There was no breakthrough on the stalemate over the presidential televised debates. The next one on the schedule, next Sunday in San Diego, now looks at severe risk. There is even speculation now that for the first time since 1972 there may be none at all.

# Presidential punches miss the mark

Bush's badly needed turning point is continuing to prove elusive, writes Jurek Martin

TURNING points in elections anywhere are sometimes seen as they happen, but are mostly perceived with the benefit of hindsight. All that can be said about this US presidential campaign, now down to the last five weeks and a day, is that President George Bush needs a turning point, desperately.

It is not easy to see where it could come from. The economy cannot save him now, as every weekly, monthly, and quarterly number continues to demonstrate.

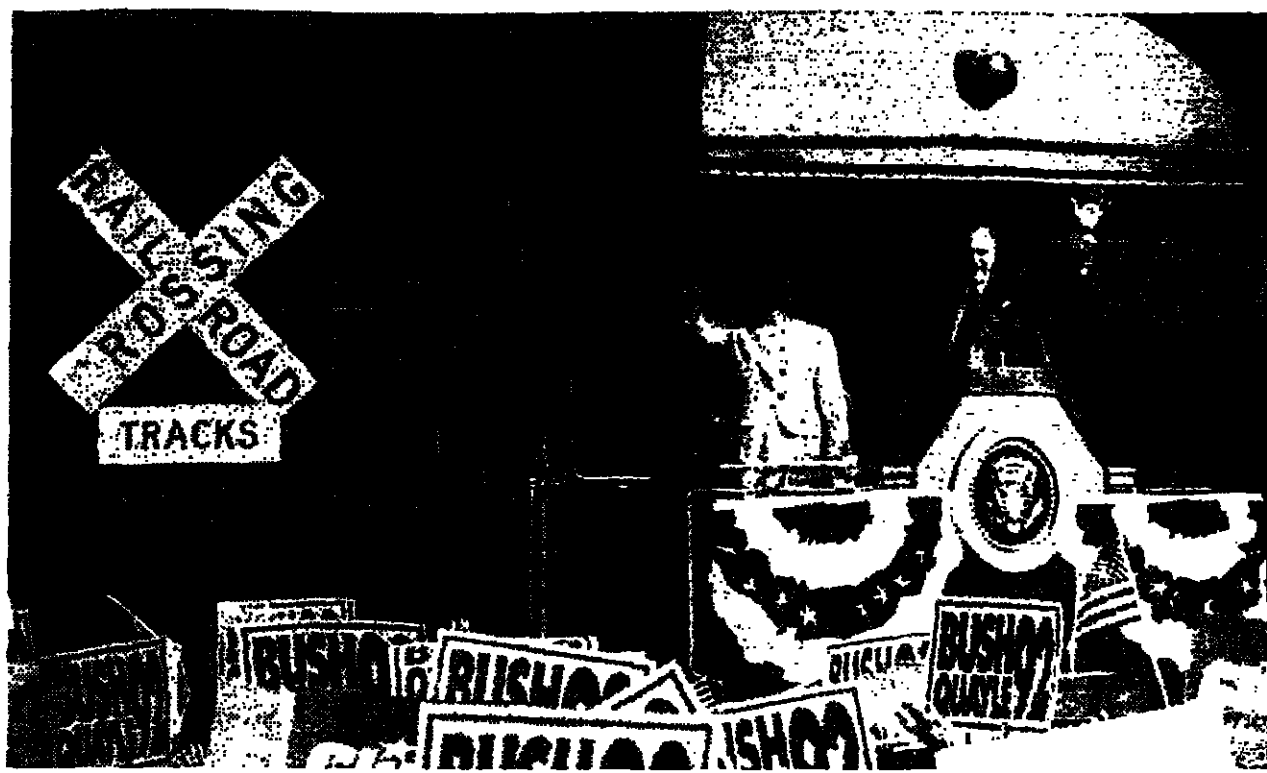
Hammering Governor Bill Clinton as the mad taxman of Arkansas, also inclined to let murderers out on the street before their time, is an exercise in statistical futility, rendered suspect by Mr Bush's own sanctioning of the second largest tax increase in US history two years ago.

Bashing his Democratic opponent for dodging the draft 28 years ago is not resonating and, even if the country cared, is neutralised by continuing allegations about what then-Vice President Bush knew about the Iran-Contra scandals, about which it may care just as little. Trying to paint Mr Clinton as an Oxford-educated social engineer intent on recreating what had failed in Warsaw, Prague and Moscow does not stick in these post-cold war days.

Mr Bush may be seeking to shed the albatross of "family values" hung around his neck by the far right. But he could not last week stop television starting a new season of the drama Murphy Brown, whose heroine, an unwed mother, was the object of Vice President Dan Quayle's summer discontent. This meant that the popular shows endlessly rehearsed a debate that does not work to Mr Bush's advantage.

If that were not bad enough, on Friday there was "Magic Johnson, the HIV-afflicted basketball star and national hero, resigning from the president's Aids commission with a blast at administration neglect of the problem.

Even the places where Mr Bush now chooses to campaign are themselves an indication of desperation. To be sure, Michigan and Ohio, his weekend targets, are competitive and



At the crossroads: Bush and his wife Barbara wave to supporters as their campaign train pulls out of Columbus, Ohio

important states. But last week he was tied down in Mississippi and Oklahoma and tomorrow he will be in Texas, all of which would a few months ago have been automatically slotted on to his side of the political ledger and worthy of no more than nominal attention.

Nobody has the foggiest clue what Mr Ross Perot will finally do. But if the Texan billionaire damages anybody except, certainly, himself, by re-entering the race or by what he says, the suspicion is that it will be Mr Bush and in the states which he absolutely must win, like Texas and Florida, to retain the presidency.

Some serious pundits, reeling off polling statistics from the Florida Keys to the Puget Sound, are beginning to talk of a Clinton landslide, comparable to President Lyndon Johnson's over Senator Barry Goldwater in 1964.

Many point to the fact that no candidate since Truman in 1948, when polling was less sophisticated and the opposition over-confident, has been

so far behind so late in the campaign as Mr Bush now is and gone on to win.

Even personal experience, which should be inherently suspect, is becoming hard to ignore. Last Thursday, your correspondent and a German colleague went to Philadelphia to speak to a meeting of European chambers of commerce, not exactly a Democratic hotbed. On the train back to Washington that night, we compared notes and found that we had talked to only one person who proclaimed himself a staunch supporter of Bush.

So what does Mr Bush do to retain his crown? It is increasingly hard to believe that he cannot now agree to debate with Mr Clinton, if necessary on his opponent's terms, which happen to be those of the independent bipartisan commission in charge of presidential debates.

This means a single moderator, rather than a panel of inquisitive journalists. If there were two debates, both formats could be employed.

The Bush campaign could also get more negative and seriously dirty. There has been a sharper edge to some "factual" commercials, mostly about the state of Arkansas, now flooding the air waves. The president, or more likely a surrogate, may go so far as to accuse Mr Clinton of physical cowardice or to "reveal" something or somebody more plausible than Jennifer Flowers on the sex front. It is getting a little late to produce it and it will be harder still to make it stick.

An October "surprise" cannot be ruled out, though what it might now be is anybody's guess. There may be some mileage in a Middle East peace agreement before November 3, but the Arab vote is small and the Jewish vote inclined to return to its Democratic base. Iraq's President Saddam Hussein has virtually disappeared from the public consciousness.

Or Mr Bush could simply plug away at what he is doing now, in the hope that what he is saying about the contrast between his anti-government philosophies and Mr Clinton's

belief in state power will eventually take hold. He can invoke the patriotic spirit, and Mr Clinton's alleged lack of it, at every turn. He can continue to shower money on valuable constituencies such as defence and agriculture.

He can also go on laying into the Democrats in Congress like there is no tomorrow, though they have been artful enough to lay some clever traps for him by inviting him to veto popular bills such as those on family leave and cable television regulation.

Some of the president's recent speeches have been more specific and coherent, like the economics address in Detroit two weeks ago, which is a tribute to the influence of the Baker team. Mr Bush himself does not seem unhappy in what he calls his "campaign mode". It will only require one poll narrowing the deficit with Mr Clinton to make him positively delirious and to claim he has his opponent on the run.

But at the moment it is not working. And it is getting very late in the day.

# Political tensions mount in Caracas

By Joseph Mann in Caracas

POLITICAL tensions have risen sharply in Caracas, Venezuela's capital, following an assassination attempt last Wednesday attributed to a radical group, the "Bolivarian Liberation Forces".

The group has threatened to kill prominent figures, particularly politicians which they identify as "corrupt".

The government of President Carlos Andrés Pérez has stepped up general security, and press reports say that a number of public figures have received telephoned death threats.

The government also closed down two radio programmes, apparently for broadcasting opinions of callers who supported violent action against corrupt public figures.

Through telephone calls and a communiqué to the media, the new radical group said it was responsible for the shooting on September 23 of Mr Antonio Ríos, one of Venezuela's most important labour officials and a leading member of the ruling Democratic Action (AD) party.

Mr Ríos, who is also a member of the Chamber of Deputies, was jailed for nine days earlier this month on suspicion of influence peddling, but later released on his own recognizance. He is still under intensive care at a Caracas hospital.

The president of AD, Mr Humberto Celli, at the weekend called for a strong government hand in repressing radical actions, and the Confederation of Venezuelan Workers, which Mr Ríos headed until recently, has threatened a violent reaction against its enemies.

The confusion and alarm caused by the shooting come at a difficult time for the government, which faced five months of protests following an unsuccessful military uprising last February 4. University and secondary school students are expected to resume anti-government protests after classes fully resume this week.

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NEWS: INTERNATIONAL

# Crisis revives Brazil's royalty

ONE HUNDRED and three years after the abolition of Brazil's monarchy, a growing band of citizens wants to see a return to the days of empire.

Brazilians vote in a referendum next April on, among other things, whether to restore the monarchy. Helped by the public outrage over the corruption scandal surrounding President Fernando Collor and the country's stubborn 25 per cent a month inflation rate, a restoration campaign is gathering support.

Political analysts think Brazilians are likely to vote for change, but in favour of a parliamentary system, with the president becoming a figurehead. However, many have been surprised by the growing support for the monarchy. In the most recent opinion poll, 23 per cent supported the restoration, compared to just 3 per cent a year ago.

A member of the royal family lecturing the Rio Chamber of Commerce on the economic advantages of a monarchy received rapturous applause this month from Rio de Janeiro businessmen as he blamed the presidential system for inflation and corruption.

Dom Bertrand Orleans e Bragança, a more charismatic speaker than most Brazilian politicians, spoke of the prosperity and international respect that marked the 48-year reign of Dom Pedro II, the second and last emperor of Brazil - a title established in 1822 by his father, the son of the King of Portugal, who declared Brazil independent.

Dom Bertrand was speaking

of Dom Luis in order to marry an eastern European countess who was not of royal blood.

Characterised by his floppy grey Spanish hat, Dom Pedro divides his time between Seville and Petropolis, a mountain city above Rio which was the imperial summer capital. He has four sons and 14 grandsons, and his supporters say that Dom Luis, who is 52 and a

shaped lapel pins or emblems on their ties.

Much of the campaign's success is due to the achievements of Dom Pedro II. After taking power in 1840 at the age of 14, he oversaw a rapid expansion in the Brazilian economy, reducing dependence on sugar cane and diversifying into rubber, coffee, tobacco and cacao. A promoter of science and education, he was such an accomplished negotiator that US President Abraham Lincoln apparently said he was the only man he would trust to mediate between North and South in the American civil war.

By contrast, presidentialism has a poor record in Brazil. A leaflet produced by the Parliamentary Movement for Monarchy (MPM) describes the republic as "synonymous with lack of credibility of institutions" and catalogues its progress as "seven different constitutions, 12 states of siege, 19 military rebellions, four deposed presidents and two long periods of dictatorship". It points out that, in the last 67 years, only one civilian president finished his mandate. Mr Collor seems unlikely to improve the balance.

## Christina Lamb on growing support for a return to the monarchy

for his older brother, Dom Luis, pretender to the Brazilian throne were it to be restored. There is, however, a flaw in the monarchists' campaign. The House of Bragança is divided: two of the emperor's descendants claim the throne. Dom Luis's rival is his uncle, 88-year-old Dom Pedro Gastão Orleans e Bragança, patriarch of the House of Bragança and brother-in-law to King Juan Carlos of Spain. Although Dom Pedro is directly in line as Dom Pedro II's great-grandson, Dom Luis argues that Dom Pedro's grandfather gave up his right to accession to the grandfather

bachelor, is not fit to be emperor because he has not produced an heir and has political connections.

Dom Luis is a member of an ultra-conservative Catholic organisation, Family, Tradition and Prosperity, which he says is apolitical.

Family feuding has not hindered the move for a return to the empire. Pro-monarchy propaganda has only been allowed since a constitutional revision in 1989, and proponents include congressmen, prominent businessmen, academics and even military officers. They can be spotted by tell-tale crown-



Family fortunes: Dom Pedro Gastão Orleans e Bragança with a portrait of Emperor Dom Pedro II

# Opposing camps gather ahead of impeachment vote

By Christina Lamb in Brasília

BRAZIL's government and opposition spent a fevered weekend mustering their forces in Brasília for tomorrow's historic congressional vote on the impeachment of President Fernando Collor.

Leaders of the pro-impeachment camp sent out telegrams to party members warning that the only acceptable excuse for not attending tomorrow's session of Congress would be an obituary.

Representatives were assigned to monitor the movements of waverers and to check the airport for congressmen leaving the city. Mr Ricardo Figueira, leader of Mr Collor's "shock-battalion" of key supporters, and Mr Lafayette Coutinho, head of the state-owned Banco do Brasil, met congressmen, apparently offering government funds and positions in ministries and state companies for those prepared to back the president.

The opposition took some hope from a Gallup poll published yesterday, indicating that 70 per cent of the population want Mr Collor to quit. Only 8 per cent approve of his government. However, 50 per cent of respondents also rejected as a potential leader Vice-President Itamar Franco, who will take over if Mr Collor is ousted.

The first test will come in today's session to discuss the impeachment. The opposition must assemble 252 members to have a quorum.

Whoever wins, Brazil will have a new cabinet. Mr Collor's ministers have reaffirmed that they will all present their resignations tomorrow and few are expected to be reappointed.

However, even if he loses the vote and is thus suspended from office to face trial by the Senate, Mr Collor has indicated he will not resign. His spokesman said at the weekend: "The word is not in his dictionary."

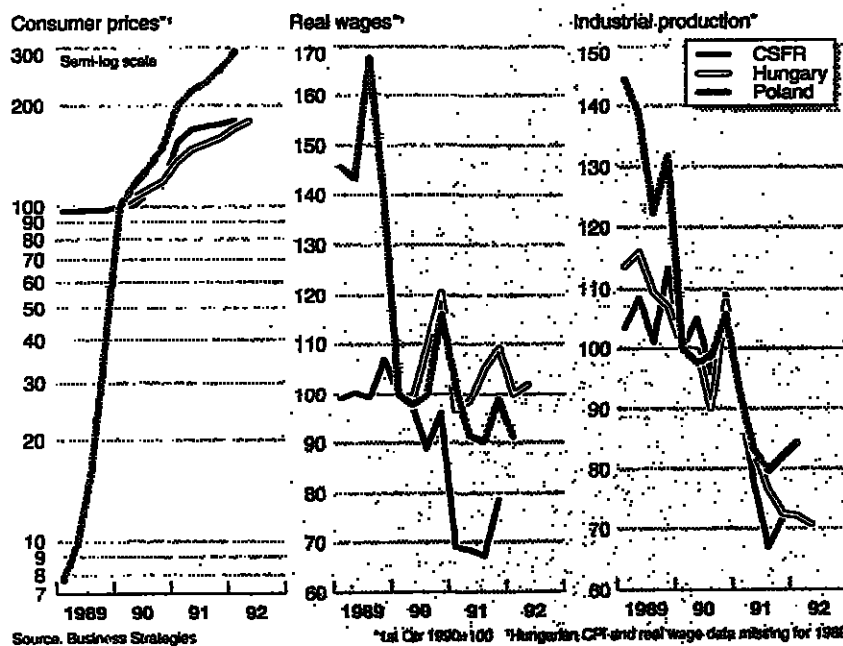
## INTERNATIONAL ECONOMIC INDICATORS: CENTRAL AND EASTERN EUROPE

This table presents the major economic statistics currently published on six east European countries. Current figures for gross domestic product (GDP) or net material product (NMP) are in billions of US\$. Trade figures are in millions of US\$. All are converted from national currency units (NCU) at the exchange rate shown (NCU per \$). Period averages. Constant price GDP or NMP growth is given as an annual percentage change. Yearly and quarterly values for consumer prices, wages and industrial production are in index form with 1991 = 100. Monthly values are annual percentage changes. The unemployment rate is shown as a percentage of the civilian labour force.

BULGARIA									
Year	GDP	Real GDP Growth	Current Balance	Visible Balance	Exports	Year	GDP	Real GDP Growth	Current Balance
1988	19.2	2.5	-840	245	7,212	1988	2.3	-59	316
1989	33.4	-1.8	-1,306	738	11,529	1989	0.7	436	188
1990	35.7	-8.1	-1,135	183	8,302	1990	-1.5	-1,105	-1,273
1991	8.3	-18.7	-897	734	3,443	1991	-19.2	328	926
1st qtr. 1991	n.a.	n.a.	-411	-69	514	n.a.	n.a.	-473	-412
2nd qtr. 1991	n.a.	n.a.	-239	182	898	n.a.	n.a.	69	48
3rd qtr. 1991	n.a.	n.a.	133	378	897	n.a.	n.a.	149	660
4th qtr. 1991	n.a.	n.a.	-370	142	989	n.a.	n.a.	584	589
1st qtr. 1992	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	295	554
2nd qtr. 1992	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	473	n.a.
CZECH REPUBLIC									
Year	GDP	Real GDP Growth	Current Balance	Visible Balance	Exports	Year	GDP	Real GDP Growth	Current Balance
1988	26.8	2.3	-59	316	15,242	1988	2.3	-59	316
1989	26.6	0.7	436	188	14,454	1989	0.7	436	188
1990	24.4	-1.5	-1,105	-1,273	11,922	1990	-1.5	-1,105	-1,273
1991	-19.2	328	926	10,595	n.a.	1991	-19.2	328	926
1st qtr. 1991	n.a.	n.a.	-473	-412	1,854	n.a.	n.a.	-473	-412
2nd qtr. 1991	n.a.	n.a.	69	48	2,835	n.a.	n.a.	69	48
3rd qtr. 1991	n.a.	n.a.	149	660	2,753	n.a.	n.a.	149	660
4th qtr. 1991	n.a.	n.a.	584	589	3,408	n.a.	n.a.	584	589
1st qtr. 1992	n.a.	n.a.	295	554	2,102	n.a.	n.a.	295	554
2nd qtr. 1992	n.a.	n.a.	473	n.a.	n.a.	n.a.	n.a.	473	n.a.
SLOVAK REPUBLIC									
Year	GDP	Real GDP Growth	Current Balance	Visible Balance	Exports	Year	GDP	Real GDP Growth	Current Balance
1988	11.8	2.3	-59	316	15,242	1988	2.3	-59	316
1989	11.9	0.7	436	188	14,454	1989	0.7	436	188
1990	10.3	-1.5	-1,105	-1,273	11,922	1990	-1.5	-1,105	-1,273
1991	-19.2	328	926	10,595	n.a.	1991	-19.2	328	926
1st qtr. 1991	n.a.	n.a.	-473	-412	1,854	n.a.	n.a.	-473	-412
2nd qtr. 1991	n.a.	n.a.	69	48	2,835	n.a.	n.a.	69	48
3rd qtr. 1991	n.a.	n.a.	149	660	2,753	n.a.	n.a.	149	660
4th qtr. 1991	n.a.	n.a.	584	589	3,408	n.a.	n.a.	584	589
1st qtr. 1992	n.a.	n.a.	295	554	2,102	n.a.	n.a.	295	554
2nd qtr. 1992	n.a.	n.a.	473	n.a.	n.a.	n.a.	n.a.	473	n.a.
HUNGARY									
Year	GDP	Real GDP Growth	Current Balance	Visible Balance	Exports	Year	GDP	Real GDP Growth	Current Balance
1988	27.9	2.6	-807	626	9,999	1988	2.6	-807	626
1989	29.3	3.7	-1,437	809	9,572	1989	3.7	-1,437	809
1990	32.3	-3.9	127	922	9,550	1990	-3.9	127	922
1991	n.a.	n.a.	267	-1,835	10,729	n.a.	n.a.	267	-1,835
1st qtr. 1991	n.a.	n.a.	159	593	2,171	n.a.	n.a.	159	593
2nd qtr. 1991	n.a.	n.a.	-271	-1,383	2,109	n.a.	n.a.	-271	-1,383
3rd qtr. 1991	n.a.	n.a.	381	-604	2,312	n.a.	n.a.	381	-604
4th qtr. 1991	n.a.	n.a.	-12	-173	4,088	n.a.	n.a.	-12	-173
1st qtr. 1992	n.a.	n.a.	428	383	2,430	n.a.	n.a.	428	383
2nd qtr. 1992	n.a.	n.a.	-451	2,687	n.a.	n.a.	n.a.	-451	2,687
POLAND									
Year	GDP	Real GDP Growth	Current Balance	Visible Balance	Exports	Year	GDP	Real GDP Growth	Current Balance
1988	88.7	4.7	-275	1,717	13,944	1988	4.7	-275	1,717
1989	82.2	0.5	-1,888	3,204	13,537	1989	0.5	-1,888	3,204
1990	93.9	-11.8	680	5,489	13,628	1990	-11.8	680	5,489
1991	n.a.	n.a.	-1,359	-22	14,871	n.a.	n.a.	-1,359	-22
1st qtr. 1991	n.a.	n.a.	-1,134	-389	2,851	n.a.	n.a.	-1,134	-389
2nd qtr. 1991	n.a.	n.a.	-531	146	3,504	n.a.	n.a.	-531	146
3rd qtr. 1991	n.a.	n.a.	533	112	3,182	n.a.	n.a.	533	112
4th qtr. 1991	n.a.	n.a.	-227	62	4,814	n.a.	n.a.	-227	62
1st qtr. 1992	n.a.	n.a.	133	n.a.	n.a.	n.a.	n.a.	133	n.a.
2nd qtr. 1992	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
ROMANIA									
Year	GDP	Real GDP Growth	Current Balance	Visible Balance	Exports	Year	GDP	Real GDP Growth	Current Balance
1988	60.0	-0.5	3,585	4,288	13,858	1988	-0.5	3,585	4,288
1989	53.5	-5.8	2,864	3,204	13,537	1989	-5.8	2,864	3,204
1990	37.8	-7.4	1,856	3,339	6,375	1990	-7.4	1,856	3,339
1991	n.a.	n.a.	-1,235	-1,001	4,237	n.a.	n.a.	-1,235	-1,001
1st qtr. 1991	n.a.	n.a.	-510	-545	1,032	n.a.	n.a.	-510	-545
2nd qtr. 1991	n.a.	n.a.	-353	-314	987	n.a.	n.a.	-353	-314
3rd qtr. 1991	n.a.	n.a.	-140	-178	928	n.a.	n.a.	-140	-178
4th qtr. 1991	n.a.	n.a.	-233	-188	1,148	n.a.	n.a.	-233	-188
1st qtr. 1992	n.a.	n.a.	-361	945	n.a.	n.a.	n.a.	-361	945
2nd qtr. 1992	n.a.	n.a.	-329	1,161	n.a.	n.a.	n.a.	-329	1,161

\* NB annual percentage changes, not index nos. Notes: Latest population estimates (end 1991, millions). Bulgaria 10.3; Czech Republic 10.3; Slovak Republic 5.3; Hungary 10.3; Poland 38.3; Romania 23.2. GDP estimates are mainly derived from NMP data. NMP differs from GDP primarily in the exclusion of the service sector. Figures for the current balance refer only to trade in convertible currencies. Visible balance and export data include all trade. Czech and Slovak values in italics are federal figures. (As a rough guide, Slovak trade share in 1990 was 24.2% of total Czechoslovak exports, and 25.7% of total imports). Sources: State statistical offices and central banks, IMF, World Bank. Data supplied by Business Strategies Ltd (Tel 071 630 5959). East European Statistical Bulletin, available quarterly. Not all series are strictly comparable across countries. For precise definitions and any further information please refer to BSL.

## Inflation and depression in reforming eastern Europe



## The birth pangs of a capitalist eastern Europe

THERE ARE, it has been said, lies, damned lies and statistics. Whether this aspersion on the world's statistical organisations is justified, it is certainly justified of the statistics produced by the late communist regimes of eastern and central Europe. To these regimes statistics were instruments of control and propaganda. As with the economies they purported to measure, the legacy of that unhappy past lingers into a difficult present.

Nevertheless, statistics are needed, wars and all, because eastern Europe is a region with a significant economic potential that is undergoing an unparalleled transformation. This week's International Economic Indicators do, therefore, contain the first in a quarterly series on central and eastern Europe, derived from the Eastern European Statistical Bulletin published by Business Strategies.

What these statistics describe is the fate of the old socialist industrial economies. These have collapsed. Industrial output in Poland, for example, fell by 45 per cent between early 1989 and mid-1991, as is

shown in the chart. The declines measured for Hungary and the Czech and Slovak Federal Republic, though smaller than for Poland, were still huge by any normal standards.

Equally evident is the appearance of open inflation. Poland's price level has risen no less than forty-fold since early 1989. Nevertheless, Poland has halted its hyperinflation, while the CSFR and Hungary have done better still. In the latter two countries the inflation has been more a one-off adjustment revealing hitherto concealed inflationary pressures than an ongoing inflationary process of the kind that beset Poland. Meanwhile, Bulgaria and Romania are both still in the grip of soaring prices.

What such figures reveal is suggestive. What they conceal is vital. They conceal, for example, the fact most goods were unavailable at their national prices before liberalisation, at least without queuing for hours. Similarly, the rise in unemployment shown in the table hides the fact that many workers, though supposedly

"employed", were actually idle.

The data are obtained through three main channels. The first is the national state statistical offices, which were originally an integral part of the centrally planned economies. These offices were closely associated with the old bureaucracy and its network of controls. The second channel is the central bank of each country, the source of much financial information. The third is international financial institutions, such as the IMF, the World Bank and the Bank for International Settlements (BIS).

Each of these sources has its particular advantages and disadvantages. But the most important difficulties lie with the official statistical offices on which everyone must ultimately rely.

Three problems arise. First, national accounts were historically based on the concept of net material product (NMP), which excludes most of the service sector of these economies. The GDP estimates now provided do not yet conform to western systems of national

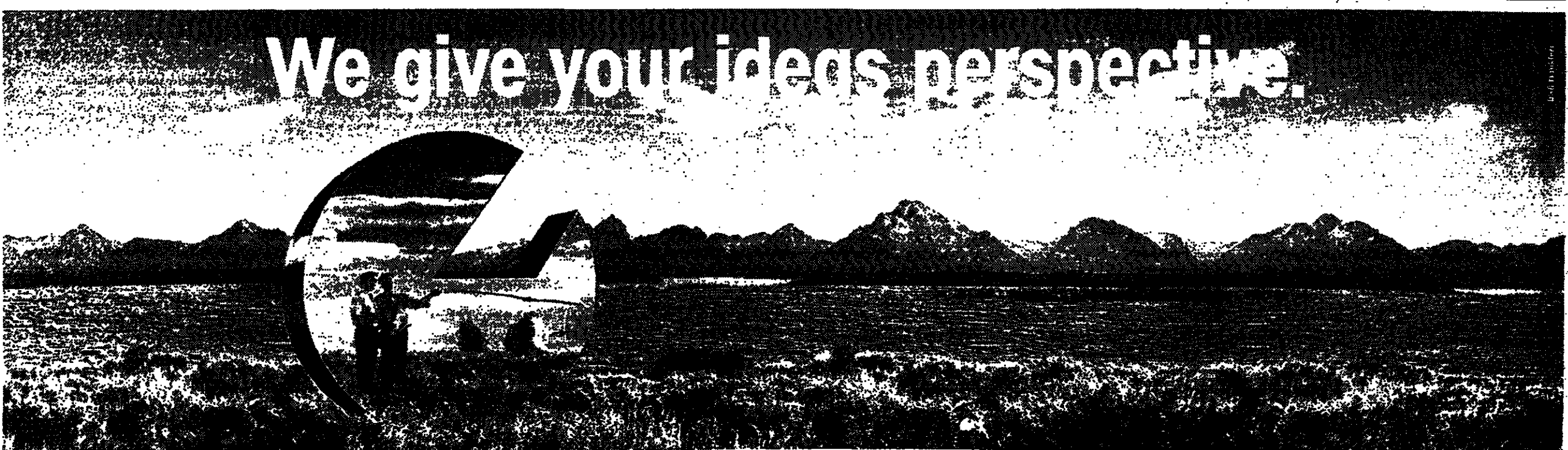
accounts, though efforts are being made in this direction.

Second, many indicators are distorted by the use of artificial exchange rates. Third and perhaps most important, the burgeoning private sector is still not included in national accounts.

Despite these difficulties, it has been decided to present figures based on the official sources rather than make what would inevitably be arbitrary adjustments. In time, the data will get better. But they will probably get better as slowly as the economies, which - at least in the cases of Poland and the CSFR - are now showing some modest signs of recovery.

Yet these recoveries are vulnerable, as much to political as economic events. Just how vulnerable is revealed by the table's division of the CSFR into what are soon expected to be the Czech Republic and the Slovak Republic, this division being certain to damage the initial economic prospects of both, but particularly of Slovakia.

Martin Wolf



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## NEWS: INTERNATIONAL

## Kenya expects loans to resume

By Michael Holman, Africa Editor

MULTILATERAL lending to Kenya, suspended for nearly a year, is expected to resume shortly, Prof George Saitoti, the country's vice-president and finance minister, said in London at the weekend.

Mr Saitoti, speaking after talks in Washington last week with the International Monetary Fund and the World Bank, said that both institutions had broadly endorsed Kenya's performance under a revised reform programme.

Although not all issues had been resolved, there had been sufficient progress for the early release of blocked World Bank resources - "about half of the \$300m (£175m) that has been held up", according to Mr Saitoti.

"It's the best news since last November", said the minister, referring to a Paris conference of donors, chaired by the World Bank, which suspended lending to Kenya and called for political reform and more effective implementation of the country's structural adjustment programme.

Shortly afterwards President Daniel arap Moi lifted a ban on opposition parties and a general election is due to take place by next March.

At the same time the government began measures to reduce the budget deficit, which was running at 6.7 per cent of GDP on an annualised basis, according to the IMF in December 1991. This was well over the ceiling set under the three-year structural adjustment programme, due for renewal in May this year.

Although some bilateral donors, including Britain,

believe that it is time to review the Paris decision, the US has been more cautious, apparently waiting for Mr Moi to set a firm election date.

In April Kenya and the Fund agreed on what was called a "shadow programme" covering the period to January 1993. If the government meets performance targets - notably the budget deficit and parastatal reforms - the final tranche of the extended structural adjustment facility (ESAF) will be released.

A combination of tax measures and spending controls,

including a freeze on civil service recruitment and cancellation of projects wholly government financed has brought the deficit down substantially, said Mr Saitoti.

According to a recent Fund report, the deficit for the year from June 1991 was about 3.5 per cent. It is estimated to have been less than 1.5 per cent over the period December 1991 to June 1992, at an annualised rate.

In addition, a parastatal restructuring and privatisation programme has been agreed to with the World Bank.

## Nigerian air force crash kills 163

A NIGERIAN air force C-130 transport aircraft crashed soon after take-off from Lagos, killing all 163 people aboard, officials said yesterday. Reuter reports from Abuja.

Many of those killed in the crash late on Saturday were believed to be middle-ranking army, navy and air force officers attending a Nigerian Command and Staff College course at Jaji, in northern Kaduna state, and some of their instructors.

"The plane nose-dived three minutes after take-off into a swampy area," said an official in Abuja, the capital. It was heading for Kaduna.

It was Nigeria's worst air force crash since independence in 1960.

Boycotts and fraud charges soured the final round of Nigeria's presidential primaries, Reuter reports from Lagos.

Police arrested at least 50 people on electoral malpractice charges during Saturday's polls in 10 states, boycotted by nine of the 12 Social Democratic party (SDP) candidates.

## UAE and Iran in islands talks

Negotiators from Iran and the United Arab Emirates opened talks yesterday on a territorial dispute in the Gulf that could plunge the world's main oil region into new crisis, Reuter reports from Abu Dhabi.

Gulf diplomats said the Emirates were preparing to insist that Iran should not only rescind measures which it says amount to the annexation of the island of Abu Musa, but should also hand back two other Gulf islands.

They said the UAE would demand the return of the Greater and Lesser Tumbs, seized by the former Shah of Iran in 1971.

The diplomats said if the talks failed to make headway, the UAE would raise the issue at the UN when its foreign minister addressed the General Assembly on September 30.

## S Korea leader starts four-day visit to China

By Yvonne Preston in Beijing

SOUTH Korea's President Roh Tae-woo began a four-day visit to China yesterday, another step towards Korean unification and an end to the cold war in Asia.

The former ideological enemies are expected to discuss expanding trade ties, the situation where China remains one of reclusive North Korea's few remaining allies, and north-east Asia in general.

The president will hold talks with China's President Yang Shangkun, Premier Li Peng and Communist party general-secretary Jiang Zemin.

Mr Roh's visit comes a month after Seoul and Beijing formalised diplomatic relations. The two sides have lacked formal ties since the Korean peninsula was divided after the second world war and communist China was founded in 1949.

Trade between China and South Korea has grown strongly in recent years, despite the absence of formal relations.

Bilateral trade reached \$5.8bn (£3.4bn) last year compared with \$3.8bn in 1990. It has already topped \$6bn in the

first half of this year.

South Korean investment in China, which has a population of about 3m ethnic Koreans in the north-east, is estimated at about \$500m. These are funds committed before diplomatic ties were forged, and investment is now tipped to grow rapidly.

South Korea wants Chinese co-operation in solving the nuclear issue in the Korean peninsula. China says it co-operates with the north's nuclear programme only for peaceful purposes. It officially claims to favour the removal of all nuclear weapons from the peninsula and of US troops from the south.

Although South Korean business is happy to see the end of mutual hostility which has put a brake on trade and investment growth in the giant Chinese market, some economists warn of a threat to Korean export markets in textiles and electronics because of China's low labour costs.

Chinese exports have exceeded South Korean exports for the first time this year. In the first eight months of 1992, China exported goods worth \$50.62bn, compared with South Korea's \$48.24bn.

## Burma revokes two martial law decrees

By Chit Tun in Rangoon

THE Burmese military government has revoked the two martial law orders giving regional commanders the right to try suspected opponents before military tribunals.

The decrees, in force since July 1989, have been revoked "in view of the improved general situation in the country and in consideration of the interests of the people", said a report on Rangoon radio.

The junta introduced the decrees to stamp out pro-democracy protests led by opposition leader Aung San Suu Kyi,

the Nobel Peace Prize winner.

Other martial law decrees, including the banning of gatherings of more than five people, remain in effect.

The government began freeing political prisoners after General Than Shwe replaced ailing hardliner General Saw Maung as its leader, but many senior opposition figures remain in detention.

The decrees were revoked two days after an administrative shake-up in which commanders from the southern, central and northern military regions were appointed ministers.

## Angola rivals try to calm voters

ANGOLAN President José Eduardo dos Santos and his former civil war foe, Unita leader Jonas Savimbi, for last-minute talks on abolishing their armies ahead of the country's first multi-party elections this week, Reuter reports from Luanda.

"There is no more war," Mr Savimbi said as he emerged from the meeting at the weekend at Mr dos Santos's Luanda residence.

The two sides earlier this month had pledged to form a government of national unity and disband their armies before the September 29-30 vote. However talks had been deadlocked over several issues including the choice of a new chief of state and demobilising 50,000 men remaining from the original combined 150,000 forces.

Diplomats said the meeting was crucial to create an image of calm following campaign violence which has claimed at least 40 lives.

On Saturday, three people were hurt when a drunken man hurled a grenade at a rally addressed by Mr dos Santos in the central port of Benguela. Police fired into the air and arrested the man.

In Luanda, Mr Savimbi told



Young supporters of President dos Santos at a MPLA rally in Luanda yesterday ahead of this week's elections

a cheering crowd of 30,000 that Unita had brought peace to Angola and should not be provoked into more bloodshed. The race for the presidency and 223-seat parliament has been polarised between Unita (National Union for the Total Independence of Angola) and

the MPLA (Popular Movement for the Liberation of Angola). Diplomats expect a close vote. Unita, backed by South Africa and then Washington, fought against the MPLA which set up a one-party state with Soviet and Cuban aid when Angola gained indepen-

dence from Portugal in 1975. The war, which killed hundreds of thousands and ruined the economy, ended with a peace accord in May 1991. Some 800 international observers - half from the United Nations - are scattered across the country to

monitor voting. Four Russian crew and 11 Angolan passengers died yesterday when a UN helicopter crashed in northern Uige province, UN officials said. Only one person aboard, an Angolan, survived the accident.

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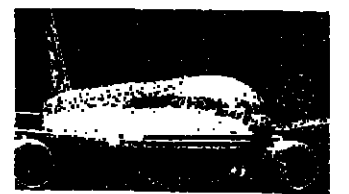
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## ARE YOU GETTING YOUR FT COMMENT DAILY?

## NEWS: UK

## Weapons and military hardware may end up on the seabed

## Last stop for Britain's nuclear submarines

By Bronwen Maddox

THE END of the cold war has brought a problem to which there is no easy answer: how to get rid of the stockpiles of unused weapons and military hardware.

The basins of the Atlantic and Pacific Oceans, more than three miles deep, fissured with canyons some seven miles deep, have often seemed a tempting way out, particularly for troublesome nuclear waste. Dumping low-level radioactive waste from arms, power stations and hospital equipment was common from the end of the second world war until 1982 when the London Dumping Convention, a world-wide treaty, brought in a moratorium.

Rules on using the sea as a rubbish tip have continued to tighten - last week saw two new treaties to curb Atlantic and Baltic pollution. The north-east Atlantic convention, a regional, stricter version of

the LDC signed by 12 countries, extended the radioactive waste dumping ban by 15 years.

That means that if Britain and France, which must soon decommission nuclear submarines and power stations, want to resume dumping after 2008 they will have to convince their co-signatories it is safe. It will not be easy - but the alternative methods of disposal on land are highly expensive.

Four of Britain's ageing nuclear-powered submarines are already out of service. The Conqueror, which sank the Belgrano in the Falklands war, Warspite and Courageous are languishing in Devonport dockyard and the oldest, Dreadnought, is in Rosyth, Scotland. The highly radioactive fuel rods have been stripped out of the 87m long hulks but a surrounding 30-foot section remains contaminated, making conventional scrapping hazardous and expensive.

If they were filled with con-

crete and scuttled about 400 miles west of Cornwall where the UK Ministry of Defence has been tipping conventional munitions, provided that no air was trapped they would sink to the seabed to the hills of the Porcupine Plain. As they are designed to dive only to around 230m, it is likely that the structure would collapse under the pressure of nearly three miles of water.

And then? Environmentalists fear radioactivity could gradually leak out. But some scientists believe that is unlikely, particularly if the hulk landed near the upheavals of the Mid-Atlantic Ridge. The jagged mountains running the length of the ocean have been formed by rock from the centre of the earth pushing upwards, forcing apart the two plates that make up the seabed, and widening the Atlantic by 2.3cm a year. Past dump sites are near fracture zones in the ridge where the movement is greatest.

Professor Keith Clayton, head of the Department of Environmental Sciences at the University of East Anglia, says "the Atlantic is by far the best place to put submarines. If they go into the deep trenches it is possible they could be dragged into the depths of the earth within some tens of thousands of years".

He adds: "What you do with small inland seas or shallow coastal waters does matter. But the open Atlantic and Pacific are not polluted and there is nothing that man is likely to do that will affect that".

It is clear that more research is needed on the effects of past dumping before a permanent decision is made. The DoE says that in unpublished studies it has found that "the effects have been benign".

OECD studies of part of the Atlantic "have not shown any excess levels", according to a 1991 report by the IAEA, the nuclear watchdog. But a fuller picture will have to wait until

next year, when the LDC will complete a thorough study of postwar dumping.

Meanwhile, investigation of local horror stories is also starting now that the secrecy of the cold war is lifting. Former Soviet military officials suggested last year that up to 12 nuclear submarines and three nuclear icebreakers - possibly containing highly radioactive fuel - had been scuttled around the Novaya Zemlya Islands near Finland.

Last week a joint Norwegian-Russian research ship, the Viktor Bytnitskiy, sent back its first conclusions that that radioactivity levels were lower than the Russians reported 10 years ago, although it has yet to take samples within 12 miles from the coast.

The IAEA, which had a scientific observer on board, said "They have not yet found anything unusual although this does not mean there will be no trouble in the future."

## Government urges Nuclear Electric to scrap contracts

By David Lascelles, Resources Editor

THE GOVERNMENT is putting pressure on state-owned Nuclear Electric to cancel some of its contracts for selling power to regional distribution companies.

The aim is to create more room in the market for electricity generated from coal, and so ease the conclusion of British Coal's latest round of contracts, which are due to be negotiated while it is still in the public sector.

Although British Coal has agreed terms for new contracts with the power generators, they still depend on the ability of generators to sell the power on to the regional distributors.

The government's attempts to make space in the electricity market have angered Nuclear Electric, which operates the 12 nuclear power stations in

England and Wales, and the distributors. It is still not clear whether the tactic will succeed.

Neither the Department of Trade and Industry nor Nuclear Electric was willing to comment, and Norweb, one of the distribution companies involved, said it could not discuss commercial negotiations.

The contracts date back to December last year when Nuclear Electric held an auction at which the distribution companies bid for short-term and long-term supplies. They were signed at an average price believed to be 2.5p a kilowatt hour, but the new coal-based contracts are being offered at between 3.2p and 3.5p a kWh.

Regional companies are therefore in effect being asked to buy costlier power. Although they are allowed to pass all changes in their elec-

tricity costs through to their customers, higher prices would still damage their image and their sales.

The government may also be counting on driving a wedge between those distribution companies which have nuclear contracts on what now appear to be very good terms, and those which do not and therefore resent being obliged to buy costlier power.

If the government persuaded Nuclear Electric to cancel the contracts, the distribution companies might be told it was because of *force majeure*.

The contracts are based on hedging arrangements, rather than direct supply, and would not affect the capacity of Nuclear Electric if they were cancelled. The state-owned company, which as a generator has about 20 per cent of the market, is keen to show commercial independence.

## Action urged to tackle lengthy fraud trials

By Robert Rice, Legal Correspondent

MRS BARBARA Mills QC, director of public prosecutions and former head of the Serious Fraud Office, yesterday called for radical action to tackle the problems of long fraud trials.

She told the British legal profession's annual conference in London that the country could no longer afford to live with the present system. Public confidence had been badly damaged by the Blue Arrow and Guinness cases and needed to be restored urgently.

Mrs Mills said time limits should be imposed on trials - with none taking more than two months.

Trial judges should have the power to decide how much time should be spent on each issue in a trial. Barristers should be limited to half an hour on each issue. A simple fraud offence should be introduced and the prosecution

should be obliged to produce short indictments.

Flea-bargaining should be encouraged. Mrs Mills said that at the moment the justice system achieved very little for victims of fraud. In the US plea-bargaining had been instrumental in recovering millions of dollars for victims.

Both prosecution and defence should be compelled to co-operate in identifying the issues for trial by early disclosure of their case during pre-trial hearings.

The intention behind the special pre-trial procedure for fraud cases introduced by the 1987 Criminal Justice Act was excellent, but did not work because it had no teeth.

Defendants who did not co-operate should not be allowed to give evidence and cross-examine on issues at the trial which they had not disclosed their position on during pre-trial hearings.

## Probe of BCCI Bank 'bribes'

By Jimmy Burns in London and Alan Friedman in New York

THE British Serious Fraud Office and US authorities are investigating allegations that at least two Bank of England officials took bribes from senior executives of the now-collapsed Bank of Credit and Commerce International during the 1980s.

The officials were the subject of an earlier internal inquiry by the Bank of England which found no evidence of wrongdoing. However, the Bank subsequently asked the SFO to carry out its own investigation. A Bank of England official said yesterday: "We are aware of these allegations and have been for some time. When we first became aware of them we investigated them exhaustively and found they had no substance whatsoever. But in view of the seriousness of the allegations we referred them to the criminal authorities."

The Bank launched its internal investigation more than nine months ago after it learnt that the allegations had been made to US investigators probing the BCCI affair.

The allegations were made by an individual claiming to be on familiar terms with a number of BCCI officials. The individual, who describes himself as an accountant and former Pakistani military intelligence officer, is believed to have told Mr Robert Morgenthau, New York district attorney, that in 1980 he saw briefcases filled with money being passed by BCCI executives to middle-ranking Bank officials.

According to a senior US investigator, the alleged bribes may have been in the form of both cash and sexual favours.

The latest BCCI allegations came just days before the expected publication in the US of a report by Democratic senator John Kerry. The report is expected to be scathing about the Bank's handling of BCCI.



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Once upon a time, there was a £17bn turnover business sector with 220,000 employees, full of companies run by people who did not know whether or not they were non-executive directors.

This sounds like the beginning of a corporate fairy-tale; it is, however, present-day reality for Britain's voluntary sector.

A survey into the training needs of charity trustees has made the remarkable discovery that only one-third of volunteers serving on management committees knew whether they were trustees of their charities. Since this year's Charities Act has greatly strengthened trustees' legal responsibilities, some are in danger of learning the answer to the question at their personal cost.

Tomorrow, the National Council for Voluntary Organisations and the Charity Commission will publish the findings of a working party which has examined ways of increasing the effectiveness of trustees and management committees.

The report reveals widespread lack of awareness among trustees of their roles and responsibilities, allied to uncertainties about how lay committee members should interact with full-time managers. There are an estimated 1m people serving as trustees of charities and other voluntary organisations in Britain, and up to 3m members of management committees. The voluntary sector over which they preside is going through a period of extensive change.

Government encouragement of voluntary organisations taking over the delivery of welfare services from the public sector, a shift from grants to a contract-based funding system, pressures from corporate supporters for efficiency, and straightforward competition between charities for funds, are all propelling the voluntary sector towards a more businesslike management style.

Trustees have wide-ranging legal, financial and managerial responsibilities that have been fortified by the new act. They may be held personally responsible if they fail in their duties.

But, as the working party's report points out, their liabilities are increasing at the very time when - because of the shift towards a more businesslike culture - their actual involvement in management could decrease.

"Professional staff will be taking the lead role in contract negotiations and contract management, and there will be a danger that trustees are simply left to rubber stamp their decisions."

Issues raised by the report concerning the relationship between charity trustees and managers mirror the current debate in the private

Britain's charities are big business but only a minority of trustees understand their financial, legal and managerial responsibilities, says Alan Pike

## Good intentions are not enough

sector over strengthening the role of non-executive directors.

Voluntary workers see a number of possible dangers in charities becoming too powerfully driven by full-time managers. One is the risk that voluntary organisations will lose sight of their social objectives, with professional managers becoming over-concerned with winning service contracts in competition with other organisations. Another is the straightforward danger of fraud if trustees are not adequately equipped to scrutinise the activities of full-time staff.

The report says that demarcation problems between trustees and senior managers are a source of considerable tension in some charities, with failure to sort out such problems a "major source of breakdowns in effective management and governance".

To ensure that trustees are properly equipped for their responsibilities, the report calls for radical changes in their recruitment and training. By undergoing proper training and raising the profile of their role, trustees would "be encouraged to be assertive enough to scrutinise the management of their organisations".

A typical trustee is over 45 years of age, white, from a professional background and is likely to be male. Members of ethnic minorities are under-represented, but proportionately less so than white working-class people.

This is partly because charities tend to recruit individuals who already possess financial, managerial and similar expertise to their management committees. But, argues the report, there is more to being a trustee than simply possessing business experience or professional skills, and the sector must find ways of broadening its recruitment base.

To widen the pool from which trustees are drawn, suggests the report, there is a need for training in committee work, decision-making, communications, negotiating



**Top 10 fund raising charities**

	Total income	Total expenditure	Net income
British Heart Foundation	104,276	104,276	258,371
British Red Cross	62,720	62,720	97,219
British Cancer Research Campaign	52,027	52,027	22,786
Imperial Cancer Research Fund	42,117	42,117	102,884
Cancer Research Campaign	40,284	40,284	38,564
Salvation Army	38,565	70,507	181,640
Save the Children Fund	38,510	62,196	23,608
Barnardos	36,688	60,553	118,571
Help the Aged	24,445	25,255	20,350
Guide Dogs for the Blind Association	24,445	32,785	190,787

Source: Charities Aid Foundation (1991 figures)

and related skills to be made available before prospective trustees join committees. There might, suggests the report, be scope for a qualification in trusteeship.

Much of the existing training available to trustees is, says the report, "inaccessible, inappropriate or ignored." One explanation for its being ignored is provided by the working party's survey of existing

planning meeting, attend a briefing on charity law or participate in the organisation's internal review."

Large charities including Save the Children, Barnardos and Mind have begun formalising the induction of trustees and committee members. But nationally, only an estimated 20 per cent of charity trustees receive formal introduction to the work of the organisations they join, with fewer than 15 per cent receiving training directly related to trustee work.

The working party wants to see a range of new training initiatives developed, including a standard information pack for voluntary organisations and expansion of developments like the voluntary sector management course launched by the Open University last year.

It says the Charity Commission should play a leading role in trying to persuade the government, local authorities and other funders to invest in improved provision of advice, support and training for trustees.

Improved training alone would not necessarily broaden the base from which most trustees are selected. To achieve this, the working party wants employers to encourage trusteeship among their staff by offering paid time off - it compares this with organisations including British Gas, IBM and Esso already allowing employees time off to serve as school governors.

It hopes the CBI, Industrial Society and Institute of Directors will promote a campaign to explain the role of trustees and attract more recruits from industry.

Some charities, like Barnardos, require trustees to give written confirmation that they understand the responsibilities they are taking on and such an approach is endorsed by the working party: trustees should, it says, be encouraged to consider at least once a year whether they were willing to continue in office.

"It is essential that trustees are aware of the responsibilities they are taking on. Although they may delegate the work involved in these responsibilities to paid staff, they cannot delegate or avoid the responsibilities themselves."

One trustee described the life-cycle of trusteeship to the working party as follows: "Start as an energetic ignoramus; make every possible mistake for five years; leave as an exhausted expert."

If the working party's proposals for better trustee training succeed, they should at least help shorten stage two of the cycle.

On Trust: increasing the effectiveness of charity trustees and management committees. NCVO Publications, 8 Regent's Wharf, All Saints' Street, London N1 9RL. Price £7.95

## Tea and sympathy for under-valued personnel managers

By Adrian Furnham and David Pendleton

Why do so few chief executives come from personnel backgrounds? For most service companies and in many other sectors, the salary bill is the single largest revenue expense, yet those whose principal function is advising on human resource management rarely make it to the top.

Indeed, many of those who work in a broad range of companies are struck by the relative powerlessness of many personnel professionals. This is the case even in companies that have attempted to change the focus of the function by creating "human resources" departments.

The influence of the personnel function is generally highest in the large bureaucracies which are more concerned with the faithful execution of procedures than the achievement of results. But even the large regulatory bureaucracies have recently been seeking to change their cultures towards a greater focus on customer service.

Personnel people are frequently to be found at the confluence of three streams of activity - administration, welfare and industrial relations. However, each of these functions is, itself, changing. Administration is becoming increasingly computerised, requiring less specialised knowledge of procedures but more of systems. Welfare is seen as anachronistic and is disparagingly characterised as "tea and sympathy", though its function remains important. Industrial relations has changed profoundly since the days of pre-Thatcherite Britain.

Other reasons for personnel's apparent decline are more self-inflicted:

● Personal attributes. Sensitive to the pain of others, conscious of the costs of redundancy and sensitised to personal difficulties, personnel managers are chosen, not for their tough independence, but for their caring personae which may well count against them.

● Reactive approach. Coming from an administrative background, some personnel specialists have a detailed and reactive approach to work and find it difficult to

make a contribution to the creation of future strategy, even when the creative use of human resources may make the most enormous difference to a company's competitive strength.

● Lack of information. Unlike colleagues in operations or finance, they frequently lack an important source of management information which will guide senior managers' decision-making.

● Invisibility. It is frequently difficult or impossible to detect the effect of the personnel department on an organisation. Most other departments' effects are readily discernible and their impact is immediate.

If the personnel specialist has a role in the future, it is as an internal consultant to line management. But, in order to play this role, specialists will have to develop themselves.

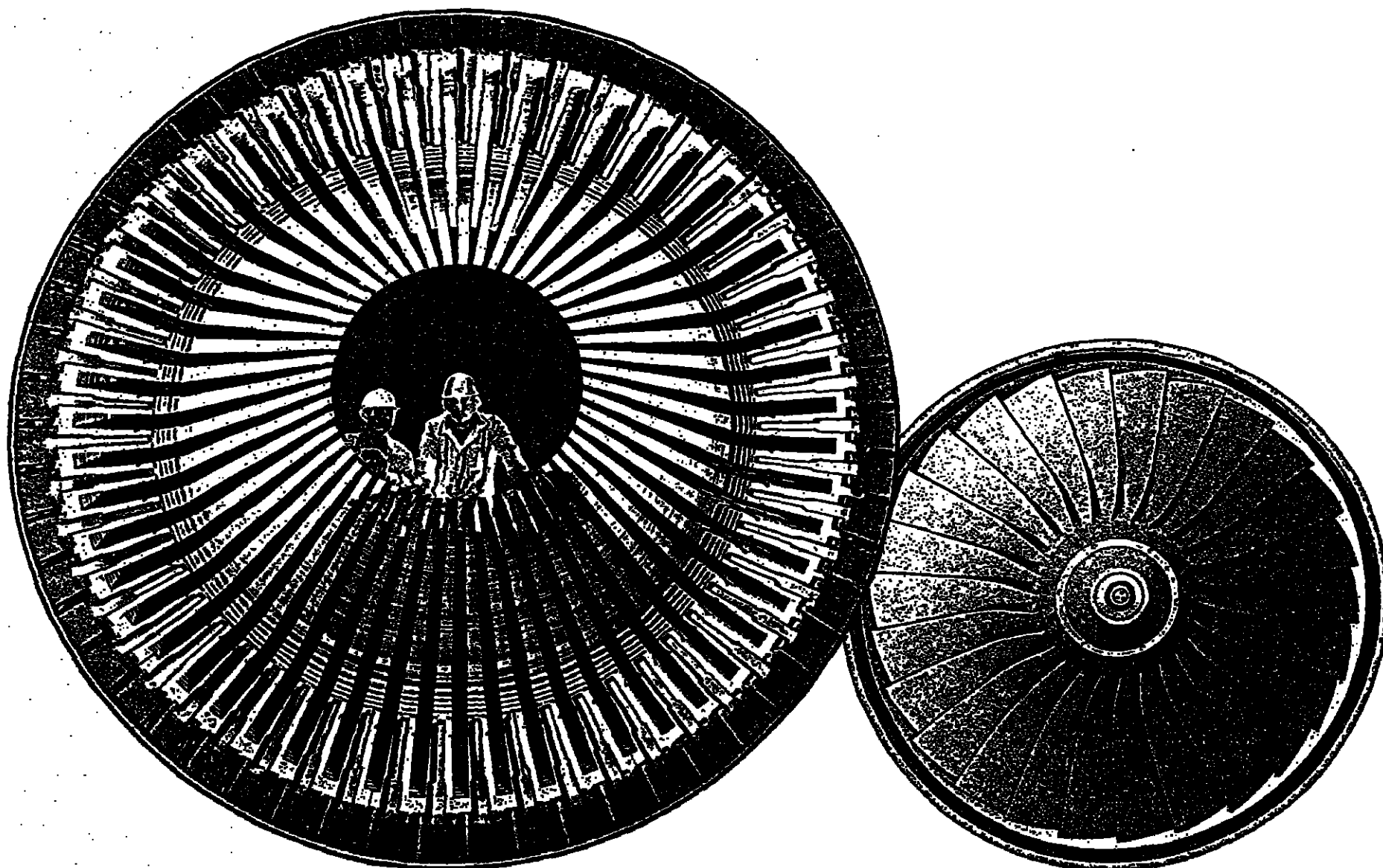
First, as markets change, organisations need to change. Helping to develop the organisation and its workforce requires a great deal of skill which it would be legitimate for many line managers to seek in the personnel function. Second, personnel departments should be playing a role in devising tracking systems to enable senior managers to keep in touch with the thoughts and feelings of employees. Those who advocate Management By Walking About suggest that managers will automatically discern what is important. But this does not take into account the difficulties of tracking the mood of the large, complex and multinational organisation.

Finally, there is a perennial need to use human resources creatively and come up with increasingly compelling reward schemes which are not based on contributing to salary inflation. Personnel departments need performance-related strategies which are logical, coherent and integrated both with other departments' plans and overall business plans.

Adrian Furnham is Professor of Psychology, University College London. David Pendleton is a psychologist and a director of consultancy Kiddy and Co.

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## THE WEEK AHEAD

## ECONOMICS

## US figures take centre stage

ATTENTION shifts to the US this week where a string of indicators on the real economy is unlikely to provide much comfort for President George Bush, as he steps up his campaign for re-election.

One of the most politically sensitive indicators - the non-farm payrolls - is forecast to show a small fall, although the data will be distorted by several factors, including the termination of around 150,000 jobs created following the Los Angeles riots. Furthermore, September's data did not benefit from the federal summer jobs programme.

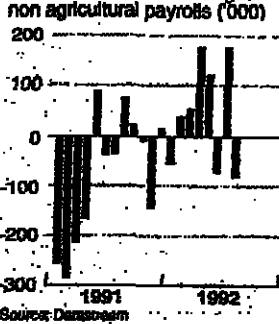
This week's national association of purchasing managers index is likely to add to the picture of a sluggish economy by confirming that manufacturing activity in the US is expanding at a very weak pace.

In the UK, official reserve figures for September, out on Friday, will give some indication of the cost of supporting sterling ahead of Britain's departure from the European exchange rate mechanism on September 16. At the end of August the Bank of England's reserves stood at \$44.4bn. The reserves were drawn on heavily in September as the Bank intervened on the foreign exchanges in an attempt to hold sterling at its then ERM floor of DM2.780.

The depletion will have been partly offset, however, by the proceeds of the \$500m borrowing announced at the beginning of the month. About

## US employment

Civilian labour force changes  
non agricultural payrolls ('000)



half of this was drawn in September, while overseas inflows associated with the third instalment of the regional electricity companies' privatisation should have brought in about \$250m, according to some economists' estimates.

A number of inflation measures are due out in Germany this week including import prices and provisional cost of living figures. These, as always, will be closely watched for signs that inflationary pressures in the German economy - which lie behind the Bundesbank's tight monetary policies - are easing.

In August, the cost of living rose by 0.2 per cent on the previous month in spite of a sharp fall in seasonal food prices. Rents and services inflation continued to rise at a well above average rate with increases of around 0.6 per cent on the month. The annual rate of inflation in August was

3.5 per cent, compared with 3.3 per cent in the year to July. Most economists are forecasting a low month on month rise in September.

"The beneficial effects of the very strong D-Mark on import prices and producer prices, along with continuing weak commodity prices should continue to help contain inflationary pressures," said Ms Ruth Lea, economist at Mitsubishi Bank in London.

Other economic events this week follow. The figures in brackets are the median of economists' forecasts, from MMS International, a financial information company. Today: Brussels, EC finance ministers meeting; UK, Blackpool, Labour party conference begins. Continues until October 2. Japan, August retail sales (down 1.8 per cent on year).

Tomorrow: UK, Q2 savings ratio (31 per cent), Q2 real personal disposable income; France, consumer prices index (up 2.7 per cent on year); US, August leading indicators (down 0.2 per cent), September consumer confidence (57.0), September agricultural prices.

Wednesday: France, government releases 1993 budget, August unemployment rate (10.3 per cent); Denmark, August unemployment rate (11.3 per cent); US, September Chicago NAPM, August new home sales (\$80,000); Canada, July real GDP (unchanged on month), July building permits (down 3.5 per cent); Japan, August construction orders,

August housing starts (up 7.9 per cent), August construction starts.

Thursday: US, initial claims for week ended September 19 (412,000), state benefits week ended September 12, September NAPM (53.8 per cent), August construction spending (up 0.3 per cent), money supply data for the week ended September 21; Japan, September foreign exchange reserves.

Friday: Germany, Bundesbank council meeting in Schwerin, east Germany; UK, September official reserves (down \$15bn); US, September non-farm payrolls (down 50,000), September manufacturing payrolls, September hourly earnings (up 0.1 per cent), September average work week, September unemployment rate (7.7 per cent), University of Michigan September survey of US consumer sentiment, August factory orders (up 0.1 per cent), August factory shipments; Canada, July leading indicator (unchanged on month); Denmark, trade balance excluding ships.

During the week: Germany, August import prices (down 0.5 per cent on month, down 4.1 per cent on year), October industrial production (down 0.2 per cent), German manufacturing output (down 0.1 per cent), provisional September cost of living (up 0.3 per cent on month, up 3.6 per cent on year); Netherlands, consumer prices index (up 0.5 per cent on month, up 3.5 per cent on year), Italy, August foreign reserves.

## RESULTS DUE

FOR Sears, the retailing group behind such names as Selfridges, Wallis, Dolcis and Olympus, the most interesting number at tomorrow's interim presentation will not be the forecast profit figure of about \$20m before tax and exceptional items, but the size of the latter item and the fate of the dividend. Opinion is split over whether the 1.525p payment will be held.

Having sold the menswear division and warned of an accompanying \$20m extraordinary charge, Sears will probably deal with its other problem

division, footwear, above the line.

One analyst estimated \$40m to \$50m of exceptional costs for the restructuring of the British Shoe Corporation. Up to 300 of its shops may be candidates for closure.

Forté, the hotels group, announces half-year results on Thursday with City forecasts ranging widely from pre-tax profits of \$25m to \$40m, compared with last year's \$42m. Attention will be focused on the prospect of senior management changes. Although analysts do not

expect any immediate word on the possible retirement of Lord Forte, the chairman, the group might announce the appointment of some new non-executive directors.

Results on Friday from Amstrad, the electronics and computer company, are expected to show a loss for the year to June 30 of about \$70m. The company's PC business, which provides it with the bulk of its revenue, has been battered as the industry's major players have been engaged in an all-out price war. Few will be surprised if the

results are worse than generally expected. The more difficult question is whether the company will pay a dividend or pass it altogether. Even if a dividend of some sort were paid, it would not substantially dent Amstrad's \$100m cash pile and would help to maintain some measure of confidence in the company.

However, given Mr Sugar's stated interest in buying back the shares at 30p each, and the expected size of the company's loss, it is not surprising that many analysts expect Amstrad to pass its dividend.

## COMPANY NOTICES

NEW KLEINFONTEIN PROPERTIES LIMITED  
(Incorporated in South Africa)

Reg. No. 01/00854/06  
(NKP)

SCHEME OF ARRANGEMENT (the scheme) PROPOSED BETWEEN  
NKP AND ITS ORDINARY SHAREHOLDERS (scheme members)

BOE Merchant Bank Limited is authorised to announce that, further to the cautionary arrangements on 21 February 1992, 1 June 1992, 3 July 1992 and 24 August 1992, the scheme of arrangement relating to the scheme will be re-opened in a circular to be posted to scheme members on Wednesday 14 October 1992.

The scheme of arrangement in terms of a proposed scheme of arrangement, each share in the company's capital will be divided into 25 ordinary shares of 1 cent each and 24 out of the resultant 25 ordinary shares of 1 cent each will be converted into redeemable preference shares of 1 cent each to which will be attached, inter alia, the right on redemption of such 24 redeemable preference shares to receive their par value in the aggregate of 24 cents.

A special dividend of 1215 cents will be paid in respect of each remaining ordinary share before the redeemable preference shares are redeemed.

In terms of the scheme, NKP shareholders are required to utilise the special dividend and the redemption proceeds they will receive to subscribe in aggregate for 4 025 000 variable rate, unsecured debentures (the debentures) of 605 cents each (issued at a premium of 14 cents) in NKP and 2 010 000 ordinary shares. An unsecured debenture will be irrevocably linked to each of the ordinary shares of 1 cent each.

Consequently, a shareholder who as at the record date for the scheme holds one ordinary share of 25 cents in NKP having an underlying net asset value of \$70.6 cents will, upon implementation of the scheme, be the holder of two linked units, each comprising one ordinary share and one unsecured debenture, valued at \$20 cents per linked unit.

The Transaction. In terms of the transaction, NKP will dispose of all its non-income producing assets and its debtors, together with Van Leer House, to AFC Investments Limited, for an aggregate consideration of R10 658 million, of which R5 052 million shall be attributable to Van Leer House. Finally, resolutions will be proposed at the general meeting to ratify the acquisition by the company of certain de-capitalised office properties with an aggregate value of R101 596 million, to be settled by way of an issue of 13 412 393 linked units, with an aggregate value of \$20 cents each, and R18 436 million in cash.

The effect of the scheme and the transaction on a shareholder in NKP who held an ordinary share prior to the scheme and will now hold 2 linked units is as follows:

	Before For NKP ordinary share	After For 2 linked units in NKP
Net asset value (cents)	970.6	1 233.67
Earnings per ordinary share (cents)	114.8	0.05
Dividends per ordinary share (cents)	62	0.05
Interest per unsecured debenture (cents)	N/A	1.31
Total interest and dividend per linked unit (cents)	N/A	1.31

Notice of scheme meeting. The meeting to approve the scheme, notice of which will be published in the Financial Times, London and the Sunday Times and Rapport on or about 18 October 1992, will be held on Friday, 6 November 1992.

Notice of general meeting. In addition, a general meeting will be held after the scheme meeting, to approve, inter alia, the adoption by the company of a new memorandum and articles of association, the change of the company's name, a division of capital, the creation and issue by the company of unsecured debentures and the acquisition of certain retail and office properties.

Notice to holders of share warrants. In accordance with NKP's articles of association, notice is hereby given to holders of share warrants that they must surrender such documents to any of the following addresses:

In the Republic of South Africa: Central Registrars Limited, 154 Market Street, Johannesburg, 2001. PO Box 4844, Johannesburg, 2000. Barclays Registrars, 34 Bechtelmann Road, Sandton, 2146. SFS ATU, Credit du Nord at Union Paroissiale, 6-8 Boulevard Haussmann, Paris, 75009.

Holders of share warrants are encouraged to surrender their documents of title prior to the scheme becoming operative, to enable them to receive the scheme consideration immediately.

Shareholder details. These details are subject to amendment. Any amendment will be published in the press.

Scheme documents posted to members. Wednesday, 14 October 1992.

Last day for lodgement of proxies for the general meeting. Wednesday, 4 November.

Last day for lodgement of proxies for the scheme meeting. Thursday, 5 November.

Meeting of scheme members to be held (10:00). Friday, 6 November.

General meeting to be held (10:30). Friday, 6 November.

Listing of new NKP linked units issued for the acquisition of the properties. Monday, 30 November.

Merchants Bank, BOE Merchant Bank Ltd, Sparring Brothers, Davis Beitman Hare & Co. Inc, Johannesburg, 28 September 1992.

Attorneys: Cliffe Dicker & Todd.

## CONTRACTS &amp; TENDERS



## PIRAEUS BANK

## REQUEST FOR PROPOSALS

Piraeus Bank, in the context of its goals for reorganisation and expansion, is interested in receiving proposals from companies or consortiums, for the development, purchase and installation of a new integrated information system.

Analytical specifications, conditions of acceptance and other information can be obtained from the Bank. Operations Division, 1 Korai Str., 1st floor, 105 64 Athens, Greece. Tel: +30-1-3231711. Fax: +30-1-3247421.

Submission deadline is Oct 30th 1992, 14:30 hrs

## PAKISTAN TELECOMMUNICATION CORPORATION

## TENDER NOTICE

Sealed bids are invited from manufacturers of repute or their authorised agents for supply, installation and commissioning into service of the alternate Fibre Optic System between Peshawar and Karachi as per Pakistan Telecommunication Corporation specifications.

Tender documents are available for sale from the undersigned on payment of Rs 3,000, receipt should be attached with the quotation. The last date of receipt of tenders is 11 November 1992 by 1000 hours. Tenders will be opened publicly the same day at 1030 hours in the PTC Siddiqui Auditorium.

Muhammed Akram  
D.E. (Purchase-IT)  
PTC Headquarters, Islamabad, Pakistan  
Tel: 051-(+92 51) 855923,  
Fax: 051-(+92 51) 856828

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on 071 873 3574  
or by fax on  
071 873 3564.

## The CO-OPERATIVE BANK

Managed  
Overdraft  
Rate Change

With effect from close of business  
on Monday, 28th September 1992

The Co-operative Bank Managed Overdraft Rates  
for small businesses will be as follows:

	% per month
Premium Rate	1.03
Standard Rate	1.23
Non Standard Rate (A)	1.48
Non Standard Rate (B)	1.57

CO-OPERATIVE BANK PLC  
PART OF THE BRITISH CO-OPERATIVE MOVEMENT

1 Ballcourt Street, Manchester, M60 4EP. Tel 061-952 5436.

GREEK EXPORTS S.A.  
INVITATION

For expressions of interest in buying the assets of PORCEL Mineral Ores, Commercial, Industrial & Shipping S.A.

Within the framework of the government's privatisation policy and on the basis of Law 2000/1991, GREEK EXPORTS S.A., a subsidiary of the HELLENIC INDUSTRIAL DEVELOPMENT BANK S.A. (ETBA S.A.) has been appointed liquidator by Court of Appeal Order 8291/9.9.1992 and intends to sell, with the procedure described in article 16a of Law 1892/1992 as supplemented by article 14 of Law 2000/1991, to private individuals, the entire assets of PORCEL S.A. which is 99.9% owned by ETBA S.A., the remaining percentage being owned by a private person.

PORCEL S.A. was founded in 1985 and is engaged in the exploitation of potash feldspars, sodium feldspars, mixed feldspars and quartz. It is the only producer of feldspar in Greece which is used as raw material for the manufacture of porcelain, glass containers, decorative tiles and other ceramic products.

The factory is situated at Parmesti, Drama, uses modern technology and covers a total area of 1,971 m<sup>2</sup> and a total volume of 8,526.30 m<sup>3</sup>. It has been built on a self-owned plot of 12,440m<sup>2</sup>.

PORCEL S.A. has mineral rights in various parts of Macedonia and Thrace totalling more than 87,500 acres.

## FINANCIAL DATA (in million drs.)

	1988	1989	1990	1991
Total Assets	1,031	1,137	942	805
Total Sales	39	97	54	29

Note: The above figures derive from published balance sheets

## PRIVATISATION PROCEDURE

- Within twenty calendar days from publication of the present invitation, interested buyers must submit a binding, written declaration of interest.
- Prospective buyers, after giving a written promise of confidentiality, can obtain an Offering Memorandum and have access to other information concerning the company for sale.
- The announcement of the public tender for the highest bidder will be published within the prescribed time limits and in the same newspapers.
- For any additional information please call the following telephone numbers: +30-1-929.4395, 929.4396 and +30-1-324.3111 to 324.3115.

## BUSINESS LOCATIONS IN EUROPE

The FT proposes to publish this survey on October 21 1992. The Financial Times reaches more senior European business executives whose job responsibilities involve taking strategic decisions about the international operations of their company than any other English language international publication. For more information on how to reach this important audience, please contact:

Elizabeth Vaughan  
Tel: 011-873 3428  
Fax: 071-873 3428  
or write to her at:  
Financial Times Ltd,  
Number One  
Southbank Bridge,  
London SE1 9NL

or contact your usual Financial Times representative

## FT SURVEYS

## THE PINNACLE SUITES



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living room separated by mirrored French  
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tub and shower.

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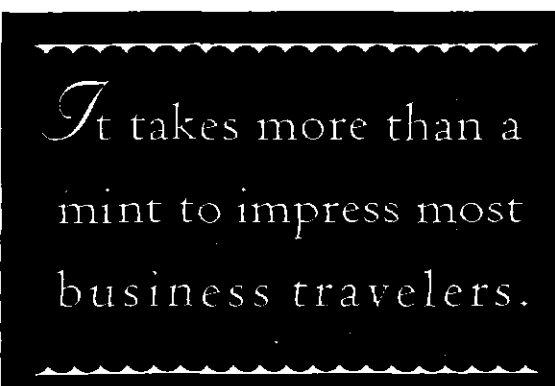
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than on pretense, now you have a hotel

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## Improving offices in Aberdeen

HALL & TAWSE has won contracts totalling £23m. They include Greyfriars House, a four-storey office block in Aberdeen, which is being refurbished by Hall & Tawse Scotland at a cost of £3.2m. The same company has also won a £2.75m contract to build facilities at Robert Gordon's College in Aberdeen, and a £1.5m contract from the Greater Glasgow Health Board for the extension of the Drunchapel Health Centre. Hall & Tawse City has gained a £1.8m contract to construct offices for Wey Services in Barking, while Hall & Tawse Eastern has won an order for £200,000 to refurbish a listed building for Boots.

## Scottish work

WIMPEY CONSTRUCTION SCOTLAND has won a clutch of nine contracts worth in excess of £14m. The largest of the schemes is for the Margaret Blackwood Housing Association. In a £2.5m contract, Wimpey will build two, three-storey housing developments in Greenock. A total of 60 flats will be constructed; 30 of which will be set aside for wheelchair-bound and disabled members of the community.

The second contract, worth just under £2.5m, is for Mobil North Sea through management contractor Ralph M. Parsons. Work involves a combination of new build and fit-out of 10 support services buildings for Mobil's Scottish area gas project at St Fergus in Aberdeenshire.

In Glasgow, Wimpey has won the £2.3m phase three contract to refurbish 114 homes for the District Council on the Whitlawburn Estate. Major structural works will include the creation of balconies.

## BUILDING CONTRACTS

### New base for German company

The pharmaceutical company MSD Sharp & Dohme has appointed BOVIS GMBH, the German subsidiary of P&O's Bovis International, to build a new headquarters building at a cost believed to be in excess of £20m in Haar, 20 kilometres east of Munich.

The construction management contract involves the construction and fitting out of a three-storey 270,000 sq ft building, complete with under-

ground car park. The external facade will be clad in glass and metal curtain walling and the roof will be finished in titanium zinc.

Capable of serving MSD Sharp & Dohme for the next decade, the building is designed with three internal courtyards, a self-contained computer centre, training and conference facilities and a staff cafeteria and kitchen.

The building is designed by

the Munich architectural practice of Zanker, Menzinger & Cirillo.

Fitting out work includes the installation of raised access floors, all partitioning, cafe-teria and kitchen equipment, together with decorations, ready for immediate occupancy.

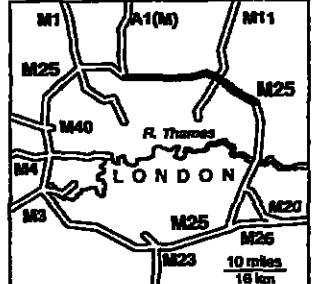
Construction work is due to begin in October with completion scheduled for September 1994.

### Major upgrade for M25 motorway

OVE ARUP & PARTNERS HIGHWAYS GROUP has been appointed by the Department of Transport (Eastern Region) to carry out the design and construction supervision of the widening of the M25 between Junction 23 - South Mimms and Junction 28 - Brentwood.

This section of 40 kms joins the A1(M) to the A12 and includes two tunnels, Holmestale and Bell Common, and the M11 intersection.

The scheme is to widen the M25 to dual four lanes while keeping new construction within the existing fence lines. The programme is in two phases with the aim of having the first section in operation in the autumn of 1996 and the



total scheme finished by the autumn of 1998.

Ove Arup & Partners International, in association with W.S. Atkins, has been appointed by the Ministry of Public Works, Kenya, to undertake the preliminary design of the Olenguruone-Silibwet

Road. The project is funded by the ODA.

The six-month project is for the preliminary design of the upgrading of 60 kilometres of road on the southern side of the Mau Forest in Kenya.

Any work on this road has significant environmental and ecological impact and these will be key factors in assessing the upgrading of the road.

The brief is to provide an all-weather single carriageway road through this rural area which minimises the environmental impact.

Such rural roads are essential for the growth of the local economy by providing year round access to the local urban areas.

### Brechin bypass development scheme

HENRY BOOT, based in Sheffield, has been awarded the £9.1m contract to dual the A94 Brechin bypass following a lump sum design and construct optional bid placed with the Scottish Office.

The 78-week project involves the reconstruction of six kilometres of single carriageway and the construction of a second carriageway alongside

using unjointed continuously reinforced concrete. It is understood that this is the first time concrete has been used on a road this far north.

All bridges are to be completely reconstructed and an additional split level interchange is to be provided at the southern end of the scheme.

Other work includes a £3.2m tower block housing refurbish-

ment for Leeds City Council; a £2.4m fit-out of a Boots store in Norwich; a £1m fast-track contract for Boots; road improvements costing £760,000 for Northamptonshire County Council; a day unit worth £200,000 at Derby City Hospital for Trent Regional Health Authority and water reservoir construction work valued at £745,000 for North West Water.

Higgs & Hill Czechoslovakia has won the design and build contract worth £1m for the creation of a bottling plant for the joint venture company Coca-Cola AMATIL from Australia.

The work involves the completion and adaptation of a previously constructed precast concrete framed and partially clad building.

The company is responsible for obtaining the necessary building approvals, the production of the working drawings and implementing the works.

### Overseas projects for Higgs & Hill

HIGGS & HILL OVERSEAS has won two contracts together worth £3.25m for the refurbishment of a hospital in Montego Bay, Jamaica and the construction of a Coca-Cola bottling plant near Prague.

Higgs & Hill is to undertake the complete refurbishment and expansion of the 10-storey Cornwall Regional Hospital at Montego Bay, Jamaica. The £2.25m contract is part of the Jamaican Ministry of Health's health service rationalisation project and is jointly funded by

the Government of Jamaica and the Inter-American Development Bank.

The project involves the expansion of inpatient services into unused floor areas in the paediatric and surgical wards together with the refurbishment of wards on the fifth and eighth floors. Major upgrading of the casualty department and the operating theatre suite and renewal of engineering systems and services to the building and campus will also be undertaken.

### Gregory's new chapter at Pentos

Clive Gregory is returning to Pentos, the booksellers and office equipment retailers - to the same position he left ten years ago. He will be group finance director, and will replace Patrick Hooper, whom Gregory recruited in 1977. Hooper moves to "another public company" shortly to be announced.

In the meantime, Gregory has been chief executive of greenhouse and conservatory manufacturer Halls Homes & Gardens, a management buy-out company he took out of Pentos in 1982, and floated on the USM four years later.

The company has just gone into receivership, following the

loss of its biggest customer, B&Q. Gregory, however, left last November, when he says he had done all he could do in terms of cost cutting and asset reduction. "It was set reasonably fair then," he contends. But Halls Homes & Gardens' market has been particularly badly hit by the slump in consumer confidence - even if Pentos company secretary Mark Jenner admits to buying a conservatory from the company this year.

Gregory, 49, who says he thinks he has aged ten years in the last decade while Terry Maher, 56, the combative Pentos boss, has advanced "only about seven years", is return-

ing to a very different business. In 1982 books were only one, if the largest, of six divisions among activities such as engineering and construction. Since then Pentos has built the Dillons and Athlone networks and acquired Ryman's. Gregory has been reacquainting himself with Pentos in the past six months by advising on the integration of Wilding Office Equipment, as well as a small MBO of the parts of Wilding, acquired earlier in the year, that Pentos did not want. When it was apparent Hooper wanted to leave, the company says it engaged in a full executive search, and then chose Gregory.

John Jagger, chief executive of PORTER CHADBURN's consumer products division, and John O'Brien, president and ceo of Porter Chadburn Inc, have been appointed to the main board.

Alan Chesters, formerly head of human resources strategy at BP, has been appointed operations director of EMPLOYMENT CONDITIONS ABROAD on the retirement of David Orr.

Paul Humphreys, formerly financial director of Leeds, a division of Porter Chadburn, has been appointed group finance director, and to the board of McLEOD RUSSELL HOLDINGS. Michael Headman, formerly a director of two subsidiaries of Hunting, has been appointed md of McLeod Russell Paint Division and also to the main board.

Colin Deuchars has been appointed vice-president material and engineering at HOLMES PROTECTION GROUP; he was formerly sales and marketing manager at Pilkington Optonics.

Joe Beeson, formerly md of URM Agencies, part of Allied-Lyons, has been appointed chief executive of HIGHLAND SPRING.

Stephen Auld, formerly director of marketing for Merchant Investors Insurance, has been appointed sales and marketing director of THE SCOTSMAN PUBLICATIONS.

Graham Harris (below) is rejoining FOSTER WHEELER as md of petroleum development after a spell as director general and chairman of the management board of European Transonic Windtunnel, a project established by the governments of the UK, Germany, France and the Netherlands to design and operate a cryogenic wind tunnel at Cologne. Before that he was director and general manager of Foster Wheeler Wood Group Engineering.



Maurice Oberstein (left), the New Yorker who became one of the British music industry's most prominent figures, is to retire as chairman and chief executive of PolyGram UK at the end of the year. He will be replaced by Roger Ames, currently managing director of London Records, a joint venture with PolyGram.

Oberstein, 64, came to the UK in 1965 to work for CBS Records as chief manufacturing engineer. He became chairman of CBS Records in the UK in 1978 and chairman of the UK arm of PolyGram in 1985. During his seven-year stint, PolyGram UK's market share rose from 15 to 24 per cent.

Oberstein is chairman of the council of the British Phonographic Industry, a post he held from 1983 to 1986 and to which he was re-elected last year. He will remain a member of PolyGram International's management team, responsible for Australia, New Zealand and Canada.

The Trinidad-born Ames worked for EMI UK before joining PolyGram's Phonogram division in 1979. Since 1983 he has been managing director of London Records, which he owns jointly with PolyGram and Tracey Bennett. Under his leadership, London Records developed such acts as Bronski Beat, Bananarama and Fine Young Cannibals.

Hanson associates

Robert E Lee, a 36-year-old American and chief financial officer of Hanson Industries, is the youngest of a clutch of new associate directors at Hanson.

The others are: Leslie Ashford, 52, chief executive of Hanson Industrial Services; Edwin Silverstone, 50, group vice-president responsible for footwear, housewares, Jacuzzi and leisure companies; David Snowden, 48, chairman of Beazer Homes and London Brick; and John Wimberly, 46, group vice president of Hanson Industries and chairman of Beazer USA.

Meanwhile, Robert Shift, 49, has resigned as an associate director on becoming chief executive of Hanson Industries Grove Worldwide.



## CONTRACTS & TENDERS



### MICROFILMING SERVICES

The Contributions Agency, an executive agency of the Department of Social Security, is calling for expressions of interest from companies wishing to be included in a preselection exercise for the Market Testing of its Microfilming Unit. Companies selected will compete against the current in-house operation.

The Microfilming Unit is divided into three operational areas which deal with the receipt, microfilming, and archival retrieval of both Income Tax and National Insurance Records. Currently some 25.5 million documents per annum are received via the receipts area for sorting and validation, before being referred for microfilming and processing.

In addition a further 4.5 million documents per annum go directly to the microfilming area. The archival library maintains 2.5 billion document images dating back to 1960/61 and responds to 6.5 million requests for copies of prints annually. Due to seasonal variations and customer requirements a high proportion of the

work load has to be cleared early in the tax year to meet the Agency's business targets.

The Agency would prefer tenders for the whole operation.

Copies of the specification will be issued to the companies invited to tender early in November 1992. It is anticipated that a 3-5 year contract will be awarded early in January 1993 for work to commence from April 1993.

A questionnaire asking for information about your company will need to be completed.

For further information or copies of the questionnaire contact:

Mr R Terment  
Room 125J  
Department of Social Security  
Contributions Agency  
Benton Park Road  
Longbenton  
Newcastle upon Tyne, NE98 1YX  
Telephone 091 2259371

All applications to be invited to tender must be received by 4pm, 14 October 1992.

## DEVON

The FT proposes to publish this survey on October 14 1992, from its print centres in Tokyo, New York, Frankfurt, Paris and London. It will be read by senior businessmen and government officials in 160 countries worldwide. It will also be of particular interest to the 130,000 directors and managers in the UK who read the weekday FT.

If you want to reach this important audience with your services, expertise or products whilst maintaining a high profile in connection with DEVON call Clive Radford Tel: 0272 292565 Fax: 0272 225974 Merchants House, Wapping Road, Bristol BS1 4RU

Data source: \* BMRB Businessman Survey 1990  
**FT SURVEYS**

## SWEDEN

The FT proposes to publish this survey on November 10 1992. Should you be interested in acquiring more information about this survey or how to advertise please contact:

In London:  
Kirsty Saunders  
Tel: 071-873 4823  
Fax: 071-873 3428  
In Sweden:  
Bradley Johnson  
Tel: +46 8 666 0065  
Fax: +46 8 666 0064  
Additional copies for marketing and information purposes can be ordered in advance from the office in Sweden.

**FT SURVEYS**

## FT CONFERENCES

### LATIN AMERICAN CAPITAL MARKETS

London, 5 & 6 October  
Growth prospects for Latin American economies and the opportunities and risks of investment will be reviewed by an eminent panel of speakers including Mr Francisco Gros of Banco Central do Brasil; Dr Roque B Fernandez of Banco Central de la Republica Argentina; Mr José Angel Gurria Treviño of the Mexican Ministry of Finance & Public Credit; Mr William Rhodes of Citibank and Mr S Shaid Hussain of The World Bank.

### LATIN AMERICAN PRIVATISATION PROGRAMMES

London, 7 October  
An assessment of the opportunities and risks in Latin American Privatisation programmes will be given by Mr Eduardo Marco Modiano of the National Development Bank of Brazil; Mr Juan Carlos Sanchez Arana from the Ministry of the Economy, Argentina; Dr Carlos Hernandez Delfino from the Venezuela Investment Fund; Mr Ricardo Guajardo Touche of Bancomer SA; and Mr Thomas Keesee of First Boston Corporation.

### MANAGING FINANCIAL RISKS

London, 12 & 13 October  
The workshop is an intensive, practical course aimed at those who wish to understand the principles and practices of financial risk management. It combines comprehensive technical reference material with an interactive format, case studies and worked examples.

### WORLD MOBILE COMMUNICATIONS

London, 12 & 13 October  
The Financial Times fifth annual conference on mobile communications will look at growth prospects in world markets and the development of new services. The outlook for PCNs, pan-European mobile networks, paging systems and satellite communications will be reviewed as well as numbering from a mobile perspective. Speakers include: Mr Terry Parker of GTE Telecommunications Products and Services; Mr J Shelby Bryan of Millicom Incorporated; Mr Bernard Ghillebaert of France Télécom; Mr Robert Kinzie of Iridium, Inc; Mr Peter Leopold of Deutsche Bundespost Telekom and Mr Rolf Eriksson of Ericsson Business Communications AB.

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Architecture/Colin Amery

# The build-up of Georgian Bath

Georgian Bath is a work of art and like works of art, needs both love and interpretation. A city conceived and designed like Bath should be seen whole and yet understood in parts, just like a great painting. Recently an important new institution devoted to furthering the understanding of the city opened its doors.

The Building of Bath Museum is an intelligent new venture that occupies a mid-18th century building that was formerly the Countess of Huntingdon's Chapel. It stands above the raised pavement of The Paragon, north of Walcot Street and east of The Circus and The Royal Crescent. The object of this new museum, run by the Bath Preservation Trust, is to show how the Georgian city was built.

Let me say at once that this new museum is extremely enjoyable to visit and utterly engrossing. Like all the best museums, it is didactic without being tedious. It is small and comfortable, and the architect for the adaptation of this 1785 chapel, Michael Brawne, is to be congratulated on his unobtrusive, economical and ingenious conversion.

The displays tell a complex story with clarity and precision. The city of Bath that we see today, although it has Roman baths at its heart, is a Georgian city that was planned and built within the century that spanned the reigns of the four King Georges. Edinburgh, Dublin and London all have Georgian architecture but Bath remains unique.

Although the city did grow with the arrival of Brunel's Great Western Railway, and was ignorantly damaged by planners, philistines and architects in the decades following

the Second World War, it does still look like a predominantly Georgian city. There are plenty of places in Bath where the views are those seen by its original creators.

In the new museum, visitors are led through the construction of the city's houses and on through the planning and growth of the city. I enjoyed the first impressions - portraits of the major characters in Bath's development: John Wood the Elder, Richard "Beau" Nash and Ralph Allen. And Oliver Goldsmith's writings about a typical day's pleasure in the happy valley between Bath's hills, is both instructive and a joy to read. The flavour of the spa and resort is distinctive and agreeable.

The flavour of the architecture is perhaps more difficult to convey. I was impressed by the way one of the first exhibits explains what classical architecture is, and what the language of columns and Orders really means.

You understand it was John Wood the Elder's sense of architectural history that made it possible for him to envision a city of great classical compositions in the undulating landscape. He was also intrigued by pre-historic British monuments, and had a sense of the picturesque.

The exhibition demonstrates that the early builders of Bath had more than just aesthetic vision: they were business men with an understanding of leases and profit and, above all, they were completely cognizant of all the practicalities of building.

One of the most fascinating facts that emerges about the building of Bath is that the

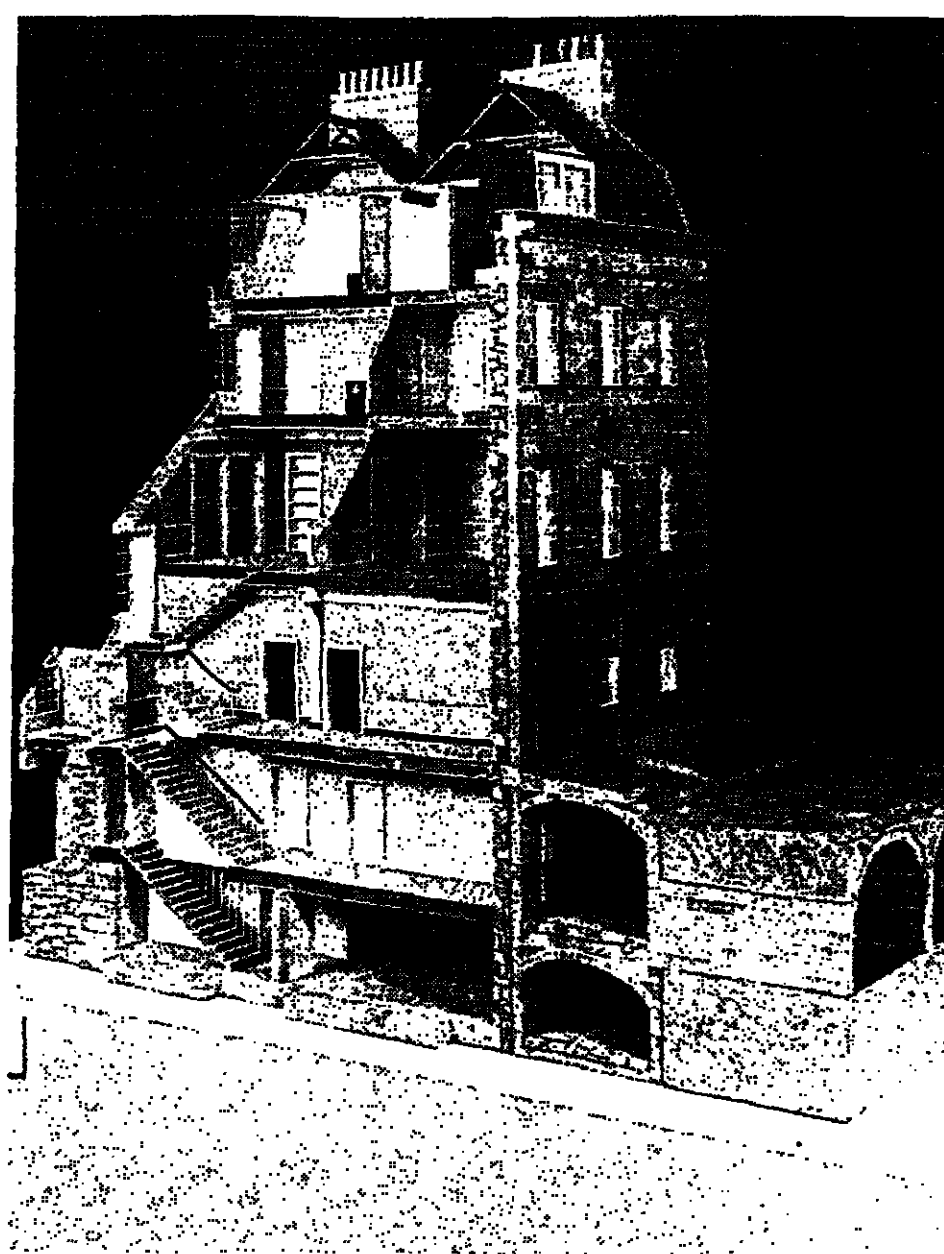
18th century building craftsman was, at his best, virtually an artist. Design at that date did not depend simply upon an architect's effort on the drawing board. It was something that was understood by the best craftsmen at his fingertips. The progeny of that rare and happy marriage of skilled hand and educated eye is to be seen everywhere in Bath.

It is the craftsman's skill that prevents this carved and cut stone city from being seen as something uniform and sterile. Everywhere, inside and outside the houses, there are details and elements of elegant variety. The broad consensus of English Palladian architecture to be seen provides the measured frame for individual architectural interpretation.

It is possible to understand this variety clearly by a glance at the splendid donation of carved wooden models of the façades of a whole range of Bath houses. They have all the qualities of a room full of human faces.

The success of the assembly of all the houses and public buildings into one unified stone city can be judged from the large model of the whole of Georgian Bath. The visitor can also illuminate at the touch of a button the chronological sequences of the city's development and to pin-point individual buildings. There is not space to show the effect of new developments on the previous fabric of the older city, but I was told that from time to time displays about threats to the city will be shown.

There are many routes into an understanding and appreciation of architecture and a popular one begins with an enthusiasm for interior decoration. There are several detailed dis-



The Building of Bath Museum: an unobtrusive, economical and ingenious conversion

plays about plasterwork, joinery, the composition and colour of paint and the disposition of furniture, that bring the architectural story around to style and comfort. There is no doubt about the elegance of life in the city, and the nature of the interiors helped to shape a degree of formality and man-

ners in the conduct of the long days of pleasure.

The Building of Bath Museum is already deservedly popular. It is a newly-cut key to the city, opening doors that will lead to the paths of love and understanding through the glorious architecture. The eyes and brain are stimulated in a

way that immediately enhances any walk through Bath.

The Preservation Trust and the whole team responsible for this skilled exercise in interpretation deserve great praise. It could be a precedent for similar displays in other historic towns.

Theatre/Alastair Macaulay

# When the Kissing Stopped

Theatre managers often wonder what visual improvements they can introduce to make their theatres more appealing. My demands are simple: just put a river beside your theatre, and I will be happy. If the river also runs under the theatre, and if there are also a mill pond and an old mill wheel on display, well, so much the better.

Last year, I fell in love with the small and exquisite Watermill Theatre, just outside Newbury. Now I have fallen for the somewhat larger (seats approx. 212) Mill at Sonning, four miles outside Reading, as I arrived, a heron flew slowly past. Such venues appeal to one's fantasy of traditional England.

The title of the Mill at Sonning's current production, *When the Kissing Stopped*, suggests, however, other kinds of England. The prurient England of sex comedy, maybe, or the wistfully elegiac England committed to autumnal resignation. In the event, the play turns gradually from the former into the latter, and here lies its charm.

Morry and Brenda run a joke shop which is also a costume-hire and kissogram business. They are an unlikely couple - he a relentlessly jolly and bawdy prankster, she a demure, refined, grey-haired spinster. You soon learn much about them: they become remarkably real characters. Their most striking habit is that, despite their incongruities, they have frequent bouts of play-acting in which, as other characters, they can talk about their real selves in the third person and even address otherwise insoluble problems.

The play's sex-comedy aspect promises to flower when the shop is visited by, first, Sarah and then her husband Laurence - separately. Sarah is quick to begin a sexy flirtation with Morry; Laurence finds himself drawn to Brenda. There are numerous farcical moments, with characters hiding and overhearing infidelities, or entering to discover couples in compromising positions. But this is not farce, because farce depends on panic and these two couples are beyond panic.

Stroke by stroke, Morry emerges as an amiably helpless charlatan; and Brenda starts to reorder her life. The director, Ian Masters, deserves praise for the naturalness with which all this is handled. Morry and Brenda are excellently realised by Linal Haft (though a trimmer, a sexier man would make more sense of the plot) and Frances White.

There are passages when the situation hovers on the brink between laughter and tears so effectively that the play gets deep under your skin. But Jeffries cannot always keep the play on that level. It's not hard to see how much more comedy could be made from the plot without sacrificing its poignancy; and eventually it rolls downhill into limp sentimentality. The most obvious flaw is Laurence, too much of a fairy-godfather to be credible. Everything he does fits neatly into place - whereas what makes Morry and Brenda interesting and unusual is that they are not neat.

The Mill at Sonning, Berkshire, until October 24

Concert/David Murray

# Mahler

On Thursday night, Yevgeny Svetlanov conducted the Philharmonia in Mahler's Symphony no. 6, and in nothing else. There was no interval. Excellent idea - the usual plan, with a very substantial work that doesn't quite fill an evening, is to tack on some *hors d'oeuvre*, as like as not under-rehearsed. The well-filled Festival Hall proved that Mahler audiences, at least, don't require make-weights.

When Svetlanov's concert was first announced, one knew partly what to expect. The symphony would be pretty loud, with the brass accorded special prominence. It would be kept on a tight rhythmic rein, with no indulging in ironic Viennese graces, and though it was sure to be a stern affair, it would be innocent (for better or worse) of anything like Expressionist hysteria. That was indeed how it was, but it was much more besides.

The Sixth is the one Mahler work, after his early *Klagende Lied*, that drives relentlessly through to a black, despairing close. (The Ninth and *Das Lied von der Erde* have "tragic" endings too, perhaps, but compromised by visionary hopes.) Though Svetlanov is a Mahler-lover of long standing, he doesn't bear him with Austrian ears - alert for sentimental parody, twisted echoes from the past, snuggly nuances. He took the symphony very straight, holding firmly

to well-judged tempi.

If he left some intimate corners unexplored (the Andante Moderato was a smooth, public affair, like unemphatic Tchaikovsky), his instinct for overall proportions was unerring. Many "subtler" readings of the Sixth come apart at the main seams, especially in the long, fiercely taxing Finale; the continuous thrust of Svetlanov's Finale was seamless, and the outcome thoroughly satisfying. Without theatrical tragedy-airs; but the Sixth is after all Mahler's most cannily and compactly-built symphony, not an opera.

The Philharmonia brass - including seven trumpets, one more than Mahler requested - were indeed prominent, but largely because they were magnificent. Trumpets brilliant (trumpet playing led by John Wallace), horns secure and forthright, a brazen fist of trombones and a notably musical tuba (John Jenkins); an aural feast, complemented by string-playing of fine, impersonal energy. I regretted only the cow-bells, rendered here in an even, quasi-electronic tremolo. Surely Mahler wanted irregular clanking, frankly picturesque, distant sounds from untroubled life in the foothills, far below.

Sponsored by Automotive & Financial Group

Opera

# Katya Kabanova



Susan Bullock as Katya and Christopher Gillett in *Katya Kabanova*

Glyndebourne Touring Opera launches its annual autumn tour in a new and rewarding way. The home theatre, normally the launch pad, has been rendered unusable by the current re-building programme, so the company set off instead with a month-long sojourn at Sadler's Wells Theatre - its first-ever in London.

This is a splendid venture. Too little opera of a non-metropolitan origin has been reaching London recently; the programme of the tour - *Katya Kabanova*, *Figaro* and *The Rakoczi March* - represents some of Glyndebourne's most interesting work of the last decade and a half; and Sadler's Wells, though not exactly a lovely home-away-from-home, does offer the productions a performing space generally in scale with their original dimensions.

The first opera of the tour, *Katya*, provides an additional source of pleasure: historical appropriateness. In this same theatre 42 years ago, under Rafael Kubelík's baton, Sadler's Wells Opera mounted the first British production of the very same opera - the initial flourish of the enthusiasm for Janáček that was eventually to lead to the current national Janáček boom.

That *Katya* was performed, of course, in English translation. The

single cloud over Thursday's opening night came with GTO's doffy insistence on having an almost entirely British cast prattle away in carefully-learned Czech while surtitles pour out overhead. In this of all theatres, and operas, the need for the closest possible communication between singer and audience should surely outweigh any ideological insistence on the purity of the original language.

This factor has to be stressed, since it seemed the main cause of a lack of communicative passion in an otherwise thoroughly well-studied, seriously-addressed performance. Nikolaus Lehnhoff's 1988 production, in the beautifully stark, bright-coloured designs of Tobias Hoheisel, offers an unusually definite (if at times over-detailed) response to both the bourgeois Russian location and Janáček's electrically vital musical idiom.

It creates a form of heightened operatic naturalism capable of charging the work with new intensity - a form which then requires to be seized and filled out by cast and conductor equally. On Thursday this task was tentatively approached. David Angus's conducting of the GTO Orchestra was musically (scoring carefully balanced, words impressively audible) but altogether

too cautious, too lacking in firmness of attack.

Most of the cast sing well - notably Timothy Robinson (a more-than-promisingly sweet-voiced Kundryash), Adele Paxton (Varvara) and Christopher Gillett (Tichon) - in a rather politely English way. The British debut of the handsome French tenor Christian Papis (Boris) introduces us to a fine, dramatically responsive singer who would be a godsend to our companies in the right repertoire: Gounod and Massenet, I feel, rather than Janáček.

Susan Bullock in the title role has much of the desired freedom and freshness of presence, and produces much tenderly floated soft singing; under pressure she can sound edgy, overstrained. So far only Eiddwen Harri, imaginatively cast as the most slyly venomous of Kabanichas, achieves any consistent stoking of the opera's fires.

Max Loppert

GTO at Sadler's Wells Theatre, September 24 - October 24, then in Plymouth, Sheffield, Southampton, Manchester and Oxford until November 28

## INTERNATIONAL ARTS GUIDE

### AMSTERDAM

Concertgebouw 20.15 Vassili Sinaki conducts Netherlands Philharmonic Orchestra in works by Sviridov, Gershwin and Tchaikovsky, repeated tomorrow. Wed, Thurs, Fri and Sun afternoon: Riccardo Chailly conducts Royal Concertgebouw Orchestra, with piano soloist Martha Argerich (8718 345). Sun in Muziektheater: revival of Offenbach's *Les brigands* (8255 458)

### BERLIN

CONCERTS Tonight at 20.00 in the Philharmonie, Bernard Haitink conducts the Berlin Philharmonic Orchestra in works by Martinů, Dvořák and Bartók. Wed: Hildrun Holtmann plays Beethoven's Berlin Baroque Orchestra. Fri, Sat, Sun: Abbado conducts Brahms' German Requiem (2548 8232). Wed in Schauspielhaus: I Solisti Veneti play Corelli and Vivaldi. (2090 2156)

### OPERA/BALLET

Deutsche Oper 20.00 Ballet mixed bill: choreographies by Balanchine and Bejart, also Thurs. Tomorrow and Sat: Don Giovanni with Ferruccio Furlanetto. Wed: new production of Don Carlo. Fri: Zar und Zimmermann. Sat: Albert Reimann's new Kafka opera *Das Schloss* (3410 249) Komische Oper 19.00 Bartered Bride. Tomorrow: Cav and Pag. Wed: jazz evening. Thurs: ballet evening. Fri: La bohème. Sat: Rienzi. Sun: Gluck's *Orfeo* (2292 556). Tomorrow in Staatsoper unter den Linden: Die Zauberflöte. Wed: Madama Butterfly. Thurs and Fri: Giselle. Sun: first night of new production of Graun's *Cleopatra* e Cesare (2004 702)

A new production of Durrenmatt's *The Visit*, directed by Alfred Kirchner, opens on Fri at Schlosspark Theater (7931 515). Hugo von Hofmannsthal's political tragedy *The Tower*, directed by Thomas Langhoff, can be seen tomorrow and Sun at the Deutsches Theater. The production opened in Berlin last week after being premiered at this year's Vienna Festival (2871 225). Bob Wilson's Schaubühne production of Marguerite Duras' play *The Sickness of Death* can be seen on Wed (5900 023). The Schiller Theater repertory includes a new production of Goethe's *Clavigo* (3126 505). Maxim Gorki Theater has plays by George Tabori. Caryl Churchill and Peter Shaffer (2082 783). Frank Castorf directs a new

production of King Lear at the Volksbühne am Rosa-Luxemburg Platz, opening on Oct 8 (2828 978).

### NEW YORK

OPERA Plácido Domingo sings the title role in *Les Contes d'Hoffmann* tonight and Fri at the Metropolitan Opera. Tomorrow and Sat: Faust with Paul Plishka, Mirella Freni and Barbara Bonney. Wed and Sat afternoon: *Un ballo in maschera*. Thurs: *Madama Butterfly* (362 8000). At State Theater, NY City Opera presents Busoni's *Doktor Faust* tomorrow, Cav and Pag on Wed. Ponnberg's opera *The Desert Song* on Fri and Sun afternoon, and *Die Zauberflöte* on Sat (870 5570)

### CONCERTS

Kurt Masur conducts this week's New York Philharmonic concerts at Avery Fisher Hall. Tomorrow's programme includes Mendelssohn's Violin Concerto played by Midori. Thurs, Fri, Sat and next Mon: works by Gershwin, Kodaly and Musorgsky (875 5030). The Carnegie Hall season is opening on Wed with a Tchaikovsky concert performed by the Pittsburgh Symphony Orchestra under Lorin Maazel, who is also conducting a concert performance of Fiedler on Thurs. Emanuel Ax and Yo Yo Ma give a duo recital on Sat (247 7800)

### PARIS

#### CONCERTS

Myung-Whun Chung conducts

works by Stravinsky, Mozart and Rimsky-Korsakov tonight at 20.00 in the Opéra Bastille. Oct 7: June Anderson sings opera arias (4001 1618)

● Thomas Hampson gives a song recital at the Auditorium Forum des Halles on Fri. Also on Fri in the Châtelet, Eliahu Inbal conducts the Orchestre National de France in symphonies by Schumann and Mahler (4028 2840)

● The 1992-3 season of concerts by the Orchestre de Paris at Salle Pleyel begins on Oct 7, 8 and 9 with Britten's *War Requiem* conducted by Semyon Bychkov (4583 0798)

OPERA ● Semyon Bychkov conducts the first night of Adolf Dresen's production of Evgeny Onegin tonight at the Châtelet. The principal roles are taken by Nuccia Focile, Neil Shicoff and Dimitri Hvorostovsky. Runs till Oct 16, with next performances on Thurs and Sun afternoon (4028 2840)

● Theodor Guschlbauer conducts *Le nozze di Figaro* at the Opéra Bastille on Wed, Sat, next Mon and Oct 10, with a cast including Gilles Cachemaille and Marie McLaughlin. A new production of Honnegger's *Jean d'Arc au bûcher* opens on Oct 9. Gwyneth Jones sings the title role in a revival of Elektra on Oct 13 (4001 1618)

● Gabriel Bacquier stars in Louis Varney's opera *Les Mousquetaires au couvent* at the Opéra Comique, daily except next Mon till Oct 7 (4286 8883)

● Ballet Roland Petit presents a season at the Opéra Comique from Oct 10 to 30 (4286 8883)

● Rudolf Nureyev's new production of *La Bayadère* for the Ballet de l'Opéra de Paris opens at the Palais Garnier on Oct 8 (4742 5371)

● Frankfurt Ballet presents choreographies by William Forsythe at the Châtelet from Oct 21 to 28 (4028 2840)

THEATRE ● Lithuanian Youth Theatre presents Chekhov's *Uncle Vanya* and Korostylov's play *Pirosmeni*, Pirosmeni from Wed to Sun this week at Le Rond Point, Théâtre Renaud-Barraut, Ave Franklin Roosevelt (4258 6070)

● Stephane Braunschweig directs Chekhov's *Cherry Orchard* at the Théâtre de Gennevilliers, daily except Mon and Thurs till Oct 18 (4793 2630)

● André Engel's production of Odon von Horvath's play *Tales from the Vienna Woods* opens tomorrow at Bobigny, daily except Mon till Nov 23 (4831 1145) ● Zarzuela Historica de un Patio. Alain Marat's theatre entertainment first seen at this year's Vienna Festival, runs till Oct 17 at the Théâtre des Bouffes du Nord (4807 3450)

● A 24-hour recorded telephone guide to Paris entertainments is available in English by dialling 4720 8898

### VIENNA

#### OPERA

Sona Ghazarian, Giuseppe Sabbatini and Alexandru Agache

head the cast in tonight's performance of *La bohème* at the Staatsoper (also Sat). Tomorrow: *Ariadne auf Naxos*. Wed: Minkus' ballet *Don Quixote*. Thurs: *Die Zauberflöte*. Fri: Salome. Sun: Fidelio (51444 2960)

CONCERTS The Britten Quartet plays works by Ravel, Britten and Dvořák tomorrow at the Musikverein.

Wed, Thurs and Fri: Evgeny Svetlanov conducts the Russian State Orchestra in works by Musorgsky, Prokofiev, Scriabin and Mahler. Sun: Heinrich Schiff conducts Northern Sinfonia in works by John Casken, Haydn and Beethoven. Next Tues: Claudio Simeone conducts I Solisti Veneti. Oct 8, 9, 10, 11: Radu Lupu plays Beethoven's First Piano Concerto (505 8190)

THEATRE Theater an der Wien has a new musical entitled *Elisabeth*, based on the life of the child bride of Emperor Franz Joseph, daily except Wed (599 7719). Eugene O'Neill's play *A Moon for the Misbegotten* is running daily except Sun at Vienna's English Theatre, Josefsplatz 12 (402 1260). This week's repertory at the Burgtheater and Akademietheater includes Durrenmatt's *The Visit* and a new play by Elfriede Jelinek (51444 2218)

● Telephone sales of tickets for the Staatsoper, Volksoper and Burgtheater are available worldwide for holders of credit cards by ringing Vienna 5131 513

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Sky News 0130-0200 (Mon), 2130-2200 (Thurs), 0230-0300 (Fri) FT Business Weekly

#### SATURDAY

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CNN 1030-1100, 1800-1830 World Business This Week

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## FINANCIAL TIMES

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Monday September 28 1992

# Europe must keep moving

WHEN EUROPEAN leaders meet at their emergency summit in Birmingham next month, their task will be nothing less than to craft a crisis strategy for the future of the European Community. Their formal agenda will be more specific: the currency explosion which forced Britain and Italy out of the Community's exchange rate mechanism, and the growing uncertainties over the future of the Maastricht treaty. But the job of the summit will not be to draft technical responses to technical problems, but to ensure that the shock of the present crisis does not drive the process of European integration right off the road.

The Birmingham summit will present a choice between two broadly distinct strategies. The first is that all 12 member states should proceed together along the path they have already mapped out together, which means ratifying and implementing the Maastricht treaty. The alternative would be a strategy of variable geometry, in which some of the member states would move ahead down the road of economic and political integration more quickly than others.

For political and psychological reasons, the traditionally orthodox strategy is to be preferred. If it can be sustained, not merely are all 12 member states manifestly part of a European family of nations, but the Community's institutional model has always been based on the premise that all member states should normally take part in all joint policies on a basis of legal equality. One consequence of this universalist system is that it gradually reinforces the sense of shared interests; over the years, the 12 have increasingly recognised that their common interests go beyond the narrow specifics of their existing treaties; that is why they negotiated a treaty as wide-ranging and far-reaching in its scope and ambitions as Maastricht.

## More soluble

Ideally, then, the 12 would press ahead with the Maastricht treaty as quickly as possible, and the British government would bring it back to the House of Commons for ratification as soon as possible. This would still leave the Danish problem unresolved, but it might become more soluble, one way or another, after all the other 11 states had ratified the treaty; at the very least the choice facing the Danish government and people would be more clear cut.

The trouble with this orthodox strategy is that it is not at all clear that it can be put into practice, and very doubtful indeed that it could be put into practice as rapidly as circumstances demand.

Mr John Major, the British prime minister, has reaffirmed his

commitment to the treaty. But he has made clear that he will not bring it back to Parliament until he knows how the Danes propose to deal with the problem of their No vote. Even then British ratification may remain uncertain: it may not be possible to get it through the House without causing a deep split in the Conservative party, and Mr Major may not soon feel strong enough to face that kind of struggle.

Second, it is not at all clear how the Danish No vote can be reversed in a quick and painless way. If the rest of the Community were to offer substantive changes of policy to Denmark, the treaty would have to be revised, and ratification would have to start from the beginning again. If there are no changes to the treaty, Danish voters have no reason to change their minds.

## Deeply damaging

In any case, the combined effect of the British and Danish factors will, at best, be to delay the ratification of the Treaty for another year or so.

Such a delay now would be deeply damaging to the Community process. The Danish and French referendums have revealed serious popular misgivings about the Maastricht treaty, and the currency crisis has cast doubt on the durability of the existing European Monetary System, to say nothing of the future credibility of the Maastricht programme for economic and monetary union. Europe's leaders must urgently come up with responses to restore credibility to the Community process.

One option would be for an inner group of member states to move ahead together more rapidly than the rest, for example towards economic and monetary union in anticipation of the ratification of Maastricht. The treaty expressly allows for such variable geometry, in which not all member states would move to the single currency at the same time; and the present currency crisis has obviously postponed any timetable by which Britain and Italy could move to Phase 3.

In practice, any variable geometry initiative can only come jointly from France and Germany. It was their leadership which was primarily responsible for pushing the Maastricht negotiations to a conclusion, and it is their political relationship which will determine the future dynamic of the European Community. If they believe they can make a success of an accelerated move towards monetary union, in association with the Benelux countries, they should press ahead. What Europe can least afford right now is a prolonged period of drift and uncertainty.

# The problem of too much energy

WE HEAR little about a world energy shortage these days, at least compared with the era of oil shocks. The World Energy Congress, which has just concluded its triennial deliberations in Madrid, estimates that there is enough oil to last 44 years, enough gas for 57 years and enough coal for several centuries. Moreover these estimates take little account of the role that technology could play in improving both the supply of energy and the efficiency with which it is consumed.

The picture is complicated by the fact that the fastest rates of economic growth in the coming decades may well occur in third-world countries where energy efficiency is lowest. But against this, the former communist countries should make substantial offsetting efficiency gains. Even when the oil and gas do begin to run out, the WEC believes that sufficient strides will have been made to improve the environmental acceptance of both coal and nuclear.

Barring the unforeseeable, this portends plentiful and relatively cheap supplies of energy. The WEC does not expect the price of oil to rise much in real terms before the end of the first quarter of the next century, when the exhaustion of known reserves begins to loom. Opec continues to look like an organisation fraying at the edges.

This is a comforting outlook for the energy consumer. But the prospect of abundant energy also has its darker side. It provides little incentive for the energy industry to diversify sources of supply and develop new fuel types. The longer the energy market remains secure, the stronger will become the tendency to draw on a narrow range of cheap and convenient fuels - as now in the UK with the shift to natural gas at the expense of coal. A sharper element of uncertainty would produce more

hedged energy policies. Although the emergence of a shortage would quickly push up energy prices, this might be too late for the long lead times needed to bring about changes in the energy balance.

Another concern must be that cheap energy will remove the stimulus to technological innovation, and that the sharp gains in energy efficiency triggered by the Opec oil shocks could peter out. Similarly, energy at its present undated price is too cheap to warrant wide-scale development of new forms of energy such as wind and solar, even though these may be needed in the longer term.

But the sharpest problems are likely to arise in the mounting tensions between energy and the environment. If the WEC outlook is correct, the energy market will not generate enough pressure to reduce consumption, produce cleaner fuels, and encourage a shift towards renewable energy forms. Quantifying environmental benefits and costs is anything but an exact science, but increasingly governments will have to weigh these calculations as rigorously as possible. The energy/environment balance is one that will need to be struck politically, whether through tighter regulation or, preferably, via the price mechanism using taxes.

Although industrialists and consumers in a recession-hit world will be grateful for WEC's comforting message, there is a growing constituency for higher energy prices in a world of traffic jams and dirty powerstations where global warming is becoming a matter of strong public concern. As the world shifts towards a greener agenda the case for a costlier energy structure becomes more compelling. In the context of the 30 years over which the WEC is looking, it is hard to avoid the conclusion that more energy taxes will have to come.

## European competition policy: keeping control of concentration

### Main provisions of EC merger regulation:

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- Merger task force has one month from notification to decide whether a deal is "compatible with the common market"
- If task force has "serious doubts" about a deal, it launches a full investigation. Commission then has four months to decide whether to approve the deal, block it or insist on modifications

The lengthening shadows over the future of European integration have left most Brussels Eurocrats in a far from festive mood. But Mr Colin Overbury, head of the Commission's merger task force, is an exception. Not only does he have something to celebrate, he even has his own stock of sparkling wine, labelled Cuvée Merger Task Force.

After two years in operation, Mr Overbury and his 50-strong staff have come a long way to win the confidence of previously sceptical European companies and national competition watchdogs. They have convinced them that they are up to the task of policing large and complex cross-border mergers.

Though some of the task force's recommendations - the basis for merger decisions by the full Commission - have aroused controversy, it is widely praised for a businesslike approach which has combined speedy handling of cases with impartiality and open-mindedness.

Gaining credibility has been crucial both to the effectiveness of the task force, and to Brussels' wider - and politically controversial - drive in the past few years to make a liberal competition policy a central pillar of the Community's economic development.

Competition is one of the few areas where the Commission may act without specific authorisation from EC governments. But until a few years ago it used its powers timidly, issuing decisions which often seemed more to reflect dry legal theory than market realities.

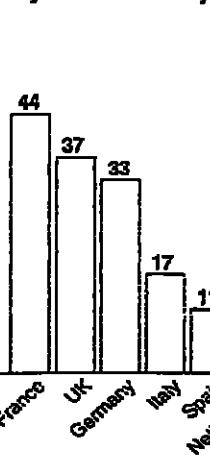
Under Sir Leon Brittan, competition commissioner since 1983, and Mr Peter Sutherland, his Irish predecessor, things have changed radically. Both men have sought to transform policy from a reactive safeguard into a positive force for creating and policing the emerging single market.

As well as winning expanded powers over mergers from EC governments Sir Leon has cracked down on industrial subsidies, toughened scrutiny of state-owned industries and challenged entrenched national monopolies in energy and telecommunications.

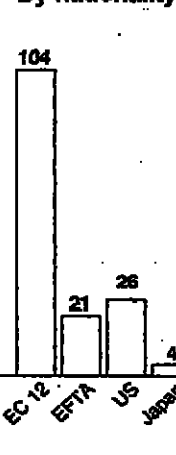
His activism has won respect, if not always friendship. It has also inspired countries such as Belgium and Italy, where competition law has been weak or non-existent, to introduce national controls on cartels and mergers.

However, as the visibility and reach of EC policy have grown, so has debate about its direction and exercise. Critics in countries such as France claim it has already gone too far, while free-marketiers in Germany worry that Brussels is not tough and independent enough.

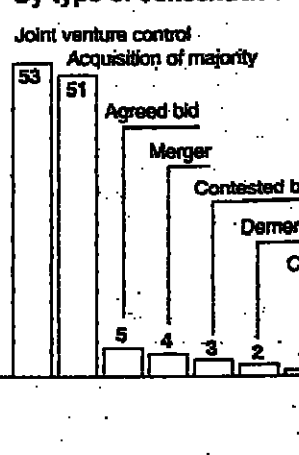
### By EC nationality



### By nationality



### By type of concentration



Sir Leon Brittan  
EC Competition Commissioner

# The EC's merger task force has risen to the challenge of cross-border regulation, say Guy de Jonquieres and Andrew Hill

## Shaken Europe's pillar of strength

This divergence underlines the delicate political balance on which the Commission's authority rests. Uniquely among anti-trust bodies, the Commission is charged with disciplining transgressors which are often not private companies but sovereign governments.

Pressures to compromise arise not just because EC governments seek to influence individual commissioners in cases involving sensitive national interests. The Commission also cannot afford to antagonise too seriously governments on whose support and goodwill it depends to promote other areas of policy.

Brussels' ability to stick to its pro-competition line will be called into question if national resistance to further EC integration - and the achievement of the single market - continues to grow. For the moment, the merger task force is counting on procedural efficiency and the quality of its legal and economic arguments to weather the storm. All 120 cases it has handled have been dealt with on time, and none of its recommendations has been rejected by the full Commission or challenged in the courts.

Despite tight deadlines (see panel), Mr Overbury says the task force relies on thorough analysis of the economic impact of mergers rather than just on legal criteria. He encourages companies to discuss proposed deals with his staff and, if appropriate, to modify the terms before they are formally notified.

This streamlined and pragmatic approach contrasts with the more long-winded and ponderous proceedings typical of other parts of DG IV, the Commission's competition directorate, and some national merger authorities. Indeed, some companies have deliberately structured deals so they fall within the task force's jurisdiction.

But the deadline policy is still feeling its way. This is partly because of technical imperfections in the EC merger regulation, which Mr Overbury concedes is "full of

warts, obviously the child of compromise at a very late stage."

For instance, Brussels still has difficulty deciding which joint ventures should be vetted by the task force under the merger regulation, and which by another arm of DG IV under Article 85 of the Rome Treaty, which employs different criteria.

Some lawyers also complain that policy is unpredictable. Ms Diana Good, a Brussels-based partner in Linklaters & Paines, a London law firm, says the task force makes too many "experimental" decisions, by which it refuses to be bound in the future.

Legally the most controversial innovation was the task force's objection that the recent takeover of Perrier of France by Nestlé of Switzerland would create duopoly - or shared dominance - of the French mineral water market.

Most merger control experts agree that controlling duopolies is essential. However, many question whether the merger regulation entitles the Commission to do so, and whether it was proper to introduce the doctrine so abruptly. Some think Brussels should follow US anti-trust authorities by publishing guidelines setting out planned policy changes.

Mr Overbury rejects guidelines, saying they could prove too constraining and send confusing signals to companies. But some lawyers think the Commission is also reluctant to seek the necessary authorisation from governments for fear of re-opening divisive arguments about the role of merger policy.

Officials insist that debate is already settled. Though France and several southern countries originally wanted a merger policy which favoured employment and creating European champion companies, they say the principle that cases be judged solely by their effect on competition is no longer seriously contested.

However, the solidity of the consensus has yet to be thoroughly

tested, since the Commission has blocked only one deal - last year's planned takeover of De Havilland, the Canadian aircraft maker, by Aerospatiale of France and Alenia of Italy.

Brussels' readiness then to brave French and Italian fury is cited by officials as proof of its determination and independence. Yet the decision also exposed the limits of the Commission's solidarity, splitting its 17 members and scraping through by a single vote.

In other cases, the Commission's bark has seemed worse than its bite. For all its objections to duopoly dominance in the Perrier case, its decision left Nestlé and BSN of France controlling three-quarters of the French mineral water market and imposed what are widely considered minor conditions on the deal.

Some lawyers think the task force's tight deadlines, which give third parties only 10 days to comment on deals, may allow some questionable mergers to slip through the net. Others believe the Commission is deliberately treading carefully, lest an unduly harsh line stifle an important force for EC economic integration and trigger political hostility. "It's a fragile institutional situation," says one.

The case for caution has recently been reinforced by rising resentment in many countries towards meddling by Brussels. EC competition officials are openly relieved to have avoided any contentious proceedings involving France in the run-up to its referendum on the Maastricht Treaty.

Sir Leon has sought to calm the waters by declaring his commitment to "subsidiarity" - the doctrine that decisions should not be made centrally if they can be made nationally. In particular, he wants national courts to hear more EC competition cases.

However, his enthusiasm is clearly tempered by reservations about how far national bodies can be relied on to do the job. Europe as

a whole, he says, has yet to develop a "competition culture" of the kind which has evolved in Germany.

Precisely for this reason, some experts say, EC policy needs to be shielded more effectively from political meddling. The argument has been made most insistently by Dr Wolfgang Kerber, former head of the German cartel office, who has called for an independent European competition authority, separate from the Commission.

Sir Sydney Lipworth, chairman of the UK Monopolies and Mergers Commission, has suggested that investigation of cases be entrusted to a special body, independent of the Commission's prosecuting arm, which would be obliged to publish its findings.

Mr Jacques Delors, the Commission president, is also said to favour an independent competition agency on the grounds that it would insulate commissioners from a source of bruising political conflicts. Sir Leon, however, rejects all such proposals.

Constitutionally, competition policy must always be accountable to a higher authority, he says. But to have off policy to an independent agency, answerable to the Commission or the Council of Ministers, would be an "open invitation" to those bodies to override the agency's every decision.

His argument is given some substance by the position of France. Since the De Havilland affair, French ministers have seemed more favourable to the idea of an independent agency, in the apparent belief that its powers could be easily checked.

In the last analysis, the strength of Sir Leon's case will continue to depend on his skill in winning arguments in the Commission. As one member of the task force puts it: "He's our Gary Lineker. We give him the ball and he puts it in the net."

However, goal-scoring may become steadily harder if the Commission's increasingly defensive mood leads it to flinch from controversial decisions. Nor is there any guarantee that Sir Leon, whose term as competition commissioner is due to expire at the end of this year, will have a successor as politically adept, forceful or committed to free-market principles.

Meanwhile, Sir Leon insists on being judged by results. "No system is perfect, though the case has not been made for the changes which have been suggested," he says. "However, if the fundamental reason for change was that the Commission's record showed it wasn't behaving responsibly, the balance of arguments could shift."

# What's wrong with the Eurowets



The Maastricht treaty and the European exchange rate mechanism have been considered in two separate compartments. The first has been the concern of foreign ministries; the second of finance ministries and central banks. As a result, politicians and officials who want to establish their European credentials, but dislike - or are indifferent to - the sound money implications of present and proposed European monetary arrangements ("Eurowets" for short) are tempted to advocate the ratification of the Maastricht treaty, after arrangements have been made

between central banks outside the Treaty of Rome. The ERM comes into the picture in relation to the transition to stage three of full economic and monetary union (Emu). Countries will only be eligible to take part in the latter, if they have been for two years within the narrow band of the ERM without devaluation.

If monetary union is established at the beginning of 1997, the implication is that participants will have to have been in the ERM in 1995 and 1996. Given the difficulty of moving from being out in the cold to a rigid adherence to the narrow band, a would-be participant would be well advised to join the ERM under less restrictive conditions by 1993 or early 1994 at the latest.

If Britain exercises the protocol which allows it to opt out of monetary union, then there will be no obligation to rejoin the ERM. At this stage however the question arises: what is Maastricht for?

The makers of the Maastricht treaty envisaged a three-stage process with stage one (in which we are already supposed to be) consisting of the ERM, stage three marking the beginning of full monetary union and stage two as a transitional one beginning in 1994. Many statements by governments and central bankers have made it clear that all the main players are expected to be in the ERM by that year and to move to narrow bands not long afterwards. Countries like Portugal and Greece would, of course, be allowed to move at a slower pace.

The ERM was established as a first step to monetary union. The Delors committee was set up in 1988 with the express object of reviving the project. Indeed Jacques Delors himself has always regarded Emu

as the central part of Maastricht and the main political vehicle for European integration. The foreign policy and defence aspects were inserted at a later stage, partly because the German government was not prepared to sign away the D-Mark without progress towards a federal Europe.

Predictably, the wider provisions turned to be mainly foliage around Emu. The provisions for a common foreign policy avoid majority voting and bypass the Brussels Commission for the most important decisions. There will only be a common foreign policy if Community countries can get their acts together on issues such as Yugoslavia. But that was the case before.

It was always puzzled by John Major's insistence that the Maa-

**I was always puzzled by Major's insistence that the treaty was as valuable for what it leaves out as for what it contains**

tricht treaty was at least as valuable for what it leaves out as for what it contains. If the UK opts out of both the Social Charter (as it should) and of monetary union (as it should not) the treaty becomes an empty shell.

Its main advantage for the UK is that it provides a route by which a House of Commons can one day join a monetary union. So long as Britain rejoins the ERM or any successor arrangement, the hope remains alive. Otherwise, it makes no difference whether parliament ratifies Maastricht or not.

**Delors himself has always regarded Emu as the central part of Maastricht and the main political vehicle for integration**

to meet the concerns of Denmark, but to leave the monetary side in abeyance. This is not, however, a sensible distinction.

It may be that the Maastricht treaty is dead. Or it may be that the ERM will break up beyond hope of resurrection. But on the assumption that both survive - even if Germany and France also adopt a fast track towards monetary union - the monetary and the political sides will have to be brought together.

The Eurowets have a legal case. The exchange rate mechanism was established in 1979 by a protocol

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# South Africa's third man rattles the troika

As de Klerk and Mandela resume talks, Chief Buthelezi has served a reminder of the problems ahead, says Patti Waldmeir

When Chief Mangosuthu Buthelezi, every inch the Zulu prince in his leopard-skin skirt and spear — rose to address yesterday's gathering of Zulu warriors in Durban, he had only one message to deliver: that no deal on a post-apartheid constitution can be made without him, and that he will extract a high price from anyone foolish enough to try.

It was a sobering reminder of the central fact of South African politics: that the country has not just two warring leaders, but three. Mr F W de Klerk, the president, who represents most whites, many coloureds and Indians; Mr Nelson Mandela, president of the African National Congress (ANC), who commands most black support; and Chief Buthelezi, who probably has the support of a large chunk of the 7m-strong Zulu nation, and represents, at the very least, a significant spoiling force.

Chief Buthelezi, whose public speeches have tended towards the hysterical in recent weeks, made clear yesterday that he was enraged by Saturday's peace deal between Messrs de Klerk and Mandela, by far the most powerful leaders in this troika. Government, he said, was conniving with the ANC to stitch up a political deal excluding other South African leaders (he is the only one with significant support). They would do so at their peril.

It was a chilling spectacle: every one of the 7,000-odd men gathered at a sports ground in the ANC-controlled KwaMashu township carried several "traditional" weapons — the spears and clubs, sharpened sticks and hatchets that are to be banned under an agreement reached on Saturday between the government and the ANC. Mr de Klerk had tried to placate Chief Buthelezi by arguing for a clause in the agreement permitting traditional weapons to be carried for cultural occasions, with special permission from a judge. Chief Buthelezi indicated what he thought of that concession: "I will never ever under any circumstances ever ask anybody for permission to carry a Zulu cultural weapon."

His supporters left the stadium after yesterday's rally — staged to commemorate King Shaka, the belligerent Zulu potentate who subdued much of southern Africa by war — in marauding bands, contained only with difficulty by police. Local residents were terrified.

The rally was the culmination of a week of commemorative events for King Shaka, during which Chief Buthelezi has warned of civil war with



The deal between de Klerk (left) and Mandela (centre) enraged Chief Buthelezi (right)

the ANC if the movement carries out its stated aim of marching on the capital of the Zulu homeland, Umtata. He compared the planned ANC march with the 1879 British invasion of Umtata — and promised a bloodbath. Zulu spokesmen said they were ready for a new "washing of the spears" at Umtata.

In one sense, Chief Buthelezi's angry rejection of Saturday's peace deal should come as no surprise: two key provisions of the deal — those covering traditional weapons, and measures to fence off and patrol single-sex township hostels (where Zulu inhabitants predominate) — are directly aimed at his supporters. Yet he was not present at the talks;

**Chief Buthelezi: 'I will never ever under any circumstances ask anybody for permission to carry a cultural weapon'**

and though the government insists he was kept informed of their progress, his consent was not sought before agreement.

His rejection of the deal highlights the fragility of both South Africa's peace process and the deal struck on Saturday, which marked the resumption of constitutional talks between the government and the ANC, suspended since June. But it does not render the agreement meaningless. In the words of Mr Zaki de Beer, veteran leader of the liberal Democratic party: "Inkatha is an important organisation whose co-operation is highly desirable. However, the work must go on whether or not Inkatha takes part."

Nevertheless, Inkatha must be brought back on board, and that delicate task will fall largely to Mr de Klerk, whose government created the Kwa-

Zulu homeland as a "self-governing state" (with Chief Buthelezi as chief minister) and whose Treasury funds its budget. Because of those links, many ANC leaders take the view that Chief Buthelezi will do as he is told by Pretoria, being no more than a glorified South African civil servant.

But this ignores the fact that Chief Buthelezi commands significant political support (at least in his home base of Natal) and, more importantly, that Mr de Klerk relies on the politically conservative Zulu leader to deliver as many as 1m votes to a moderate electoral coalition headed by the ruling National party.

So Mr de Klerk can push the Zulu leader, but only so far.

made some progress on constitutional issues in recent months (despite the fact that contacts were officially suspended), bottom-line issues such as how to share power are unresolved. Chief Buthelezi's performance yesterday underscores such difficulties.

At least the ANC and the government have demonstrated a will to compromise, which has absent recently. After four months spent trading insults and blame, South Africa's two most important leaders are again trading polite conversation — and political concessions. The government made costly compromises on Saturday, which it had insisted only days before were impossible. It agreed to release three ANC members who had killed white civilians in terrorist attacks, and acknowledged that security force members would have to admit crimes committed against the ANC before receiving amnesty. The ANC, for its part, offered to re-examine its campaign of mass protest action, which has seriously disrupted the economy and led to violence.

Critically perhaps, South Africa enters the new round of negotiations under heavy international pressure to settle. If nothing else, the past three months' stand-off has achieved an expanded role for the international community in monitoring violence, and new government openness to international mediation.

But after two and a half years spent stumbling from massacre to massacre, from breakdown to bust-up, South Africans will not easily be persuaded that expressions of renewed goodwill between Messrs Mandela and de Klerk will be enough to propel them past the many obstacles in the way of a democratic South Africa. Now for the hard part.

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

### Misdirected blame for textiles job losses in UK

From Mr Ben Jackson.

Sir, John Bridge attacks the World Development Movement's campaign to phase out EC quota restrictions on clothes and textiles from poor countries (Letters, September 18) in the name of lifting British workers out of poverty. He is on shaky ground.

Only last week the Low Pay Unit reminded us that many British clothing workers are illegally paid less than even the pitiful minimum wage of £2.63 an hour, putting them in the consumer bracket hit most by the 5 per cent hike in clothing prices caused by the Multi-Fibre Arrangement (MFA).

Further, by blaming the third world for job losses he attacks the politically easiest target, not the most economically significant. The lion's share of textile and clothing consumed in Britain is made here or imported from other developed countries. More than 80 per cent of our textiles imports come from other rich countries, mostly other EC countries. To the extent that imports are to blame for job losses (and most studies show technological change and the level of domestic demand to be far more important), we should look across the Channel, not the southern oceans.

Under the MFA, British consumers pay £1bn a year to allow the government to enforce quotas against poor countries but not the rich. The arrangement costs the third world \$500m annually — nearly as much as all western aid put together.

Instead of penalising the third world with trade barriers, would it not be better to redirect the costs of protection into modernising some of the "antiquated" plant which Italian textiles giant Zucchi says deters it from investing in Britain ("Zucchi keeps its head down on expansion", September 24)?

Ben Jackson, campaigns co-ordinator, World Development Movement, 25 Beehive Place, London SW9

### Arguments against monetary union underlined by events

From Dr Jörg Schimmelpfennig.

Sir, Amid all the discussions following Britain's decision to leave the exchange rate mechanism (ERM), the most central argument in favour of a free-floating sterling seemed to have been forgotten: namely that it is in the national interest of an economy losing its international competitiveness to devalue in order both to stimulate exports and shift domestic demand away from imported goods due to the shift in relative prices. The second effect will, at the same time, help to limit the inflationary pressures arising from the price rise of foreign inputs. The turmoil that has been seen in one or two years' time be hailed as the turning point for

the British economy, at least as long as the government does not succumb to calls for a too early re-entry into the ERM. European monetary union, if it had been in place already, would have done to Britain exactly the same as German monetary union did to the east German economy. By setting a too-high exchange rate east German competitiveness was sent into free fall, drastically increasing unemployment. In Germany, one might argue, any other exchange rate between the two currencies, and especially a free floating one, was politically unattainable. In Europe, it is not too late yet.

In contrast to what the German commissioner, Mr Martin Bangemann, said last Wednesday,

the past week did nothing but underline the arguments against monetary union. Fixed (or semi-fixed) exchange rates are fine for stationary (or almost stationary) economic environments, except that in these cases they won't be needed anyway. Otherwise they are not just unnecessary, they are damaging. And economic environments are changing.

When will economic policy advisers bother to have just one closer look into what Adam Smith and David Ricardo wrote some time ago? Jörg Schimmelpfennig, Department of Economics, University of Osnabrück, PO Box 4469, D-4500 Osnabrück, Germany

### No end to fundamentals of Swedish Model

From Dr Elizabeth Baigent.

Sir, Robert Taylor's statement that "popular support for the all-party agreement (in Sweden) suggests that the end of the old Swedish Model will not be a cause for national mourning" ("The ERM and Maastricht Sweden unties welfare apron strings", September 23) cannot go unchallenged. The most striking aspects of the agreement are that it is a collective agreement which reflects consensus that all

groups in society must share the costs of tackling the nation's economic problems.

It is also striking that most Swedes lay the blame for the crisis at the feet of bankers whose activities in the 1980s have been followed by a banking crisis in the 1990s. These men (sic) are perceived to have been not only incompetent, but also immoral in their greedy pursuit of speculative wealth.

The Swedish decision to pursue a collective solution to

problems perceived to stem from individual greed hardly suggests an end to the most fundamental aspects of the Swedish model. Rather it suggests a decisive rejection of Thatcherite-Majorite policies of individualism based on political confrontation and economic and social polarisation.

Elizabeth Baigent, Department of Human Geography, Stockholm University, Stockholm, Sweden

### Case against a referendum

From Mr Claude Rodriguez.

Sir, I have returned from holidaying in France, shortly after the referendum.

During my stay, I obtained a copy of the *Traité sur l'Union Européenne* which was issued to all electors and, being bilingual, I started to read the 62 pages of fine print, which might have made some sense to members of the legal profession, but few others. I soon gave up.

I spoke to a number of people in widely differing walks of life, none of whom had read the document, or knew anyone who had. Few really had a considered opinion of the issue, and frequently were just

expressing disapproval of one or other of their party leaders (Mitterrand, Le Pen and Marchais being mentioned most).

I hope Mr Major will continue to resist any pressure for a referendum in Britain. We have had a general election this year; let us now leave the decisions and negotiations to the representatives we have elected, and hope that they justify our trust. I am sure of one thing, the man or woman in the street is not competent to understand the intricacies and details of the treaty.

Claude Rodriguez, Flat 1, 18 Hyde Park Gate, London SW7 5DH

### Why not told?

From Mr John Hughes.

Sir, Samuel Brittan, in his *Economic Viewpoint* (September 24), tells us that he has known since December last year that "something would have to give", but in the interests of the stability of the realm he decided to keep his counsel and not to share his presence with me and your other readers.

For whose benefit is your Mr Brittan writing your readers or the realm? Who does he think he is? Who do you think you are? The Thunderer?

John Hughes, Glendwood House, Bird Avenue, Clonsilla, Dublin 14

## OBSERVER

### Pukka cuppa

■ Calling all discerning tea-drinkers. What do pianist Richard Claydeman and autumnal flush musical Darjeeling Silver Tips have in common?

The answer is marketing whiz David Hutton. As one of the founders of Tollydis in 1979, he had the dubious distinction of launching Claydeman on an unsuspecting public. Now he is trying to reintroduce the East India Company, founded by Royal Charter in 1600 and dissolved in the wake of the Indian mutiny of 1857.

Together with Harrogate merchant Tony Wild, who had the same idea independently, he has gained permission to use the historic company's coat of arms, and the two are planning a range of products including spices, booze and fashion-goods.

But the first venture, just set up, is a subsidiary specialising in teas, with appropriate guidance from the archives. As well as reviving the original recipe of Earl Grey, the co-directors have located a Sri Lankan estate established by the ancestral company in the 1840s, where the almost forgotten Silver Tip — hand-rolled and sun-dried whole tea leaves — is again in production.

The least we can hope is that the results are less syrupy than Claydeman.

### Talking shop

■ What better occupation for an out of work politician than being a chat show host? Former Labour leader Neil Kinnock is to take over BBC Radio's Jimmy Young show for a week in November, and there are rumours that David

Mellor might stand in on the Wogan show.

Brian Walden, the former Labour MP, has made a much bigger hit on TV than he ever did in parliament, as has Robert Kilroy-Silk. Charles Kennedy, the Liberal Democrat president and stand-in presenter on radio's "Start the week", is another MP who sometimes seems to be in the wrong business.

Will the prattling party now be joined by Labour's Bryan Gould? If he's preparing to make his political exit, he should have no difficulty finding a TV spot.

Besides being an accomplished reporter at Thames TV in the early 1980s, he is said to have once turned down the chance of replacing Walden on Weekend World.

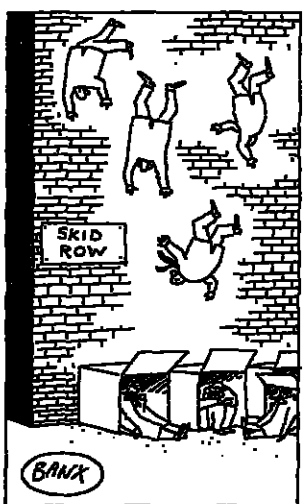
Given that Gould's 54th birthday is only a few months away, a final career as a TV personality is a tempting alternative.

### Rebuilding

■ Have you noticed how many of the hot-shot builders of the last boom have swallowed their pride and are re-emerging on the boards of far smaller competitors?

The latest is Terry Upsall, who was on the point of floating Britain's second biggest housebuilder CHB when Hanson took over its heavily indebted parent last year. At 55, he has just been given a non-executive berth at The Berkeley Group, headed by Tony Pidgley, whose ambition is to turn his building firm into the most profitable in its sector.

Pidgley, who is 10 years younger than Upsall, has already befriended Roger Lewis after he lost his job as chief executive of once high flying Crest Nicholson, and made him his finance director. Meanwhile John Swanson,



who was ousted as chairman and chief executive of Barratt last year, has been taken on as operations director of the much smaller Tay Homes, and his deputy, John Cassidy, has re-emerged as finance director of the private Wain Group.

Unlike most of the other casualties, Upsall lost his job through no fault of his own. Hence his re-surfacing at Berkeley is particularly intriguing. At Benson he was used to running his own show and building more than five times as many houses as Berkeley.

Hard to see how he can be content playing second fiddle to Pidgley, unless he's being groomed as Berkeley's first independent chairman.

### Indigestible

■ One thing is certain about the new decor of the dining room at the Institute of Chartered Accountants in England and Wales. Its construction must easily have consumed every hour of the week during which the restaurant was closed for refurbishment. Whether it was

worth the wait is another matter.

A good few of the accountants — a breed not generally renowned for their experimental skills — may find eating inside a psychedelic post-modernist collage not exactly to their taste.

There are neo-classical white-framed mirrors at the entrance and a bizarrely amateurish bas-relief with tortured figures on one wall. All around, Magritte-style friezes of Grecian vases and paintings are interspersed with panels of fake green marble and softwood. The centrepiece clinging to the ceiling is best described as a squashed metal octopus with red ear-rings. ....

### Wealthy women

■ The editor of *BusinessAge* magazine ought to be invited to the next Buckingham Palace garden party. Amid mounting pressure from the mob for the Queen to pay taxes, his magazine has shown that far from being the wealthiest person in Britain, the Queen is worth a mere £100m.

According to its list of the country's wealthiest females, the Queen is only the tenth richest and ranks well behind Christine Goulandris, a 44-year old heiress married to Tony O'Reilly. She has an estimated £280m to play with.

As for Britain's richest widow, Lady Eleanor Glover who was married to the late Sir Douglas Glover, is deemed worth at least £200m.

### Priorities

■ Guess which advice book has been the longest on the New York Times' current best-seller list?

"How to Satisfy a Woman Every Time" (43 weeks), followed by "More Wealth without Risk" (41 weeks).

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# FINANCIAL TIMES COMPANIES & MARKETS

Monday September 28 1992

**MOWLEM**  
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## INSIDE

### Test for derivative skills of banks

The past fortnight has provided a stiff test for the skills of banks active in the swaps and other derivatives markets. Has the huge cost of systems in recent years - built both to manage risk and to make it possible to price complex financial instruments - been money well spent? The answer is: "Not entirely". Page 21

### Auditors at the interim

Casual readers of some interim results released this month might have thought they had been given a sneak preview of the full-year figures. A growing number of companies are providing detailed half-yearly information. But Guardian Royal Exchange, the insurance company, and Guinness, the drinks group, have gone several steps further. Page 18

### Gilt yields change direction

Experts in the gilt-edged market have had to blink hard in the past two weeks, and not just because of the pound's exit from the European exchange rate mechanism. The gilt yield curve, which has been downward sloping for virtually all the past 10 years, has changed suddenly to move upwards. Page 20

### Ina prepares for sell-off

Topping virtually every list of Italian privatisation candidates is Istituto Nazionale delle Assicurazioni, one of the country's biggest and best-known insurers. Much preparation is necessary before Ina can sell its shares to the public. Some of its methods stem from a system dating back to 1912. Mr Lorenzo Pallesi (above), Ina's chairman, said: "The aim was to guarantee the market and avoid damage to policy-holders if a company collapsed. Although seeming unfair, the system was very attractive for all concerned." Page 19

### US looks inwards

While currency chaos continues in a newly divided Europe, Wall Street has diverted its attention from the implications of Maastricht back to the domestic economic outlook and the presidential election. Only the most optimistic economists or spin doctors for the Bush re-election campaign place much faith in a short-term US economic recovery. Page 20

**Market Statistics**

Base lending rates	27	London share service	27-28
FT-100 index	27	Managed fund service	28-29
FT/SEMA int bond swc	28	Money markets	27
Foreign exchanges	27	New int bond issues	21
London recent issues	27	World stock mkt indices	22

### Companies in this issue

Airedale	18	MCC	18, 17
Alta	18	National Home Loans	18
Arday	18	Power Financial	18
Billiton	17	Primerica	17
Dan-Air	17	Robt Jones Invs	18
Dow	18	San Paolo di Torino	19
F & G Pacific Inv	17	Sphere	17
General	17	Tepnel	18
Ina	18	Travelers	17
Jacka (William)	18	Virgin	17

## Branson may help rescue Dan-Air

By Andrew Bolger in London

MR RICHARD Branson, founder of the Virgin Atlantic Airways, may help to rescue Dan-Air, the UK-based airline which was saved from collapse less than a year ago.

Davies & Newman Holdings, owner of Dan-Air, has requested that its shares be suspended at 21p when the London stock market opens this morning, pending the outcome of the talks with Virgin.

While ruling out a merger of the two airlines, both companies envisage Dan-Air aircraft flying under the Virgin name, with Branson participating in a refinancing of Davies & Newman by its institutional shareholders.

The idea is that Dan-Air would benefit from Virgin's retail and marketing skills.

The airlines would remain operationally separate, although both see benefits from co-ordinating Dan-Air's short-haul European network with Virgin's

transatlantic services. Mr David James, chairman and company director of Davies & Newman, denied weekend press reports that a deal with Virgin would mean redundancies among the 2,350 staff of his Gatwick-based airline, saying such a link-up would probably increase demand for staff.

Although Dan-Air forecast pre-tax profits of £20m (£34m) at the time of its £48.3m refinancing last October, the airline is now expected to incur a loss of £7m in 1992.

When Mr Branson made specific proposals on Thursday evening, Mr James suspended his programme of meeting institutions, until the negotiations with Virgin are completed. Mr Branson, who owns a majority of the private Virgin Atlantic, will take a stake in Davies & Newman only if institutional shareholders support the plan.

Although Dan-Air's scheduled services have been doing well recently, the charter side has suffered from uncertainty about the

future of the airline. Talks between Dan-Air and British Airways collapsed recently and Air France has also declined to get involved. However, BA may be concerned to see Dan-Air, which has six precious daily slots at Heathrow, link up with its arch-rival, Virgin.

Mr James said he was hopeful that there would be successful deal with Virgin within the next two weeks. "The chemistry is so good that it would be to the benefit of British aviation."

## Patrick Harverson on the \$722m move into insurance by Primerica and its chairman Weill starts another journey at Travelers

When he was asked how negotiations for last week's \$722.5m deal between US insurance group Travelers and financial services conglomerate Primerica had gone, Travelers chairman Mr Edward Budd said, only half joking: "Very efficiently."



Sanford Weill: kept his eye on the ball where it mattered

The remark drew a hearty laugh from Primerica's chairman, Mr Sanford Weill, who was pacing around his midtown Manhattan office last Friday morning, eager for the day's work to begin.

Only a few days earlier, the renowned financier had clinched the deal that left Primerica holding a 27 per cent stake in the struggling insurer, which in return got a huge injection of capital and, just as crucially, access to Mr Weill's expertise in rescuing troubled companies.

A native of New York who still talks with a trace of a Brooklyn accent, Mr Weill made his name in the 1960s and 1970s when he built up a small broking operation into Shearson Loeb Rhoades. He sold the firm in 1981 to American Express for \$600m, at the time the most ever paid for a securities firm.

After a brief spell with American Express, Mr Weill made an ambitious, but ultimately unsuccessful offer to take a stake in 1986 in BankAmerica. Soon after, he bought Commercial Credit, which he quickly merged with Primerica to create a complex, unfocused financial services giant.

Mr Weill spent the next six years turning each of the group's businesses around. He also found the time to attempt a merger between Smith Barney and Shearson, and, reportedly, a takeover of Wall Street investment bank Kidder Peabody.

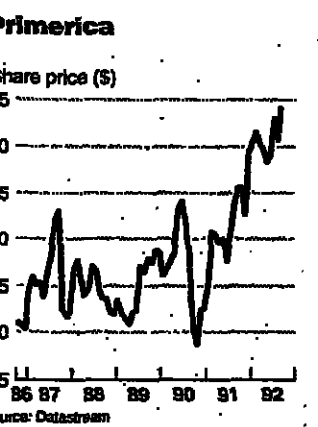
Although his attempts to build a big-league broking house failed, Mr Weill kept his eye on the ball where it mattered - at Primerica. "Our company over the last five years has seen its earnings grow at a compound rate of 25 to

30 per cent," he says. "Our dividends have been raised every year, our book value has grown substantially every year, and our return on equity has increased to something like 17 per cent, which we think is relatively good in the businesses we're in. So we like what we're doing... we've been running our business right, and funding our business right."

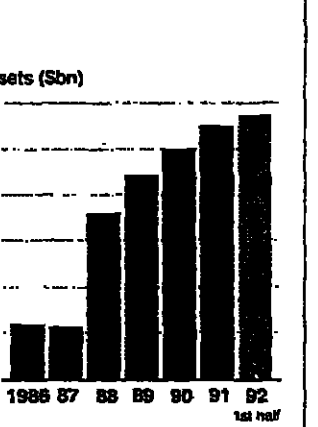
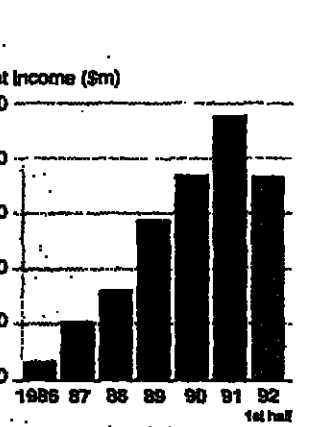
Today, Mr Weill has a target for Primerica - he would like each of the three operations to be producing twice as much profit in five years as it does now. That could be difficult without acquisitions, and few doubt Mr Weill is on the look-out.

He admits as much: "Of the core businesses of Primerica, the areas where one could grow externally as well as internally would be: buying a book of business in the consumer finance business, or buying another company in that business; adding another company in the brokerage business; or buying a mutual fund company. Yet all of those are very very hard to do right now... because the businesses are good, the cycles are good and people are doing well."

Mr Weill's repeated attempt to buy Kidder was a case in point. He is said to have pulled out of



Source: Datastream



the talks because the price was too high. Although Mr Weill does not mention any names, industry observers suggest a natural fit for Smith Barney would be Prudential Securities, the broking arm of the insurance giant, or possibly one of several smaller, regional brokerages.

While acquisitions must obviously excite the dealmaker in Mr Weill, for now his energy is likely to remain focused on the task at hand - the restructuring of Primerica.

### Acquisitions obviously excite the dealmaker in Mr Weill

merica Financial Services, and sorting out Travelers. It took little more than two months for Mr Weill to agree to come to Travelers' aid. So "efficient" were the negotiations that they weathered the disruption of Hurricane Andrew, which this year will take a big bite out of US insurers' coffers, including up to \$225m from Travelers.

Mr Weill was not blown off course. He saw in Travelers the opportunity to buy cheaply into a company that he calls "one of the great, well-known financial brands in the US".

The holding cost Primerica \$19 a share, compared with Travelers' book value of \$40 a share, and by the end of last week Mr Weill was already sitting on a handy paper profit, with Travelers shares trading at \$33.

Hurricane Andrew may even have made the Travelers stake more attractive. Mr Weill believes the spate of recent natural disasters could herald the end of the "soft" property and casualty insurance underwriting cycle and push rates up across the industry.

Travelers certainly needs the help, and there is little sign of complacency about the task facing Mr Weill and Mr Budd.

Although it has already raised almost \$700m during the year through debt and equity sales, the insurer is struggling under the burden of billions of dollars in bad commercial property loans made during the 1980s. By the end of the second quarter \$6.2bn in loans, or almost half of Travelers' property book and more than 10 per cent of the group entire investment portfolio, was underperforming.

Travelers now has \$1.1bn to help it through the property slump and pay for a big restructuring. The Primerica deal has already done some good. The Moody's ratings agency has said it will review Travelers' Baa1 rating for a possible upgrade.

Mr Budd does not see the stake in Travelers as merely a sound investment. Primerica has three core businesses - Commercial Credit, a consumer finance company; Primerica Financial Services, which sells insurance and mutual funds to middle-class families; and Smith Barney Harris Upham, a Wall Street broking house - and benefits may stem from combining elements of them with the Travelers name and its customer and product base.

Mr Budd says: "The synergies in asset-gathering are very real. We're going fifty-fifty with Gulf Insurance, the specialty property-casualty unit of Primerica that fills a niche we don't provide for our agents. [Under last week's deal, Travelers got 50 per cent of Gulf.] We will also work together on asset-management and investing... there is a lot of opportunity to cross-pollinate there."

If such potential is realised, the Travelers deal will help maintain Primerica's strong growth and enhance Mr Weill's formidable reputation.

## Maxwell businesses 'ready for sale'

By Andrew Jack in London

SALES of most of the remaining businesses controlled by the late Mr Robert Maxwell are moving towards final preparation, according to accountants working on different parts of the publisher's empire.

Plans for selling the principal companies in Maxwell Communication Corporation - including Macmillan and Official Airlines Guide in the USA - are to be submitted by accountants Price Waterhouse to the US and the UK courts next month.

Separately, discussions are well advanced for the sale of British International Helicopters, the remaining trading business in the network of private Maxwell companies being administered by accountants at Arthur Andersen.

Anderson expects to raise at least \$50m from selling BIH, along with a number of property interests and investments in Hungary and France. That will only leave the majority shareholding in Mirror Group Newspapers.

Mr Mark Homan, one of the administrators to Maxwell Communication Corporation at accountants Price Waterhouse, told the House of Commons social security select committee last week that the firm is "making substantial progress" on sales, in conjunction with its adviser JP Morgan, the US bank.

Administrators have been hampered by the highly unusual arrangement whereby MCC is controlled by Chapter 11 proceedings in the USA as well as administration under UK insolvency law.

This has caused much of the more than \$5m in legal bills incurred so far. Another reason for the delay has been difficulties in negotiating the tax position of the companies.

Mr Homan has been reluctant to provide too much information on the expected price of realisations because of commercial sensitivity. He has also been concerned about creating a false market in the discounted trade of MCC debt. He believes up to \$250m of MCC debt had changed hands since the company went into administration.

But he said MCC's assets in the UK apart from claims from third parties were about £100m. The US assets were worth up to \$1.1bn, excluding receipts from the sale of Berlitz shares. Details, Page 26

## High-speed train to EMU begins to gather steam

European Monetary Union is the talk of the town in Brussels.

First came a mischievous speech by Mr Jacques Delors, European Commission president; then some impromptu comments by Mr Alfons Verplaetse, governor of the central bank in Belgium, who said on Friday that it was possible for France, Germany and the Benelux countries to move immediately to a common currency.

When Mr Norman Lamont, UK chancellor of the exchequer, meets his fellow European finance ministers in Brussels today, he may well wonder how much this talk of a "fast-track" to economic and monetary union (EMU) is bluff, a Franco-German ruse to calm the markets and pressure Britain into rejoining the ERM. But how much it is a serious statement of intent?

Rumours of a secret Franco-German pact gathered steam after a private meeting between Chancellor Helmut Kohl and President Francois Mitterand, two days after the lukewarm endorsement of the Maastricht treaty in the French referendum. They grew in intensity as the Bundesbank and the Banque de France joined forces to group up the franc, and they reached a crescendo with Mr Delors' remarks at a conference on the future of the European Community Thursday night.

In a thinly disguised reference to growing British opposition to Maastricht, Mr Delors said: "If some countries are looking for alibis for delaying the treaty, it may well be that others take the lead."

Mr Delors' comments can be read several ways. At face value, he shares the view of President Mitterand and Chancellor Kohl that political uncertainty about the fate of the Maastricht treaty is driving speculation in the money markets. Having put too much faith in EMU, the markets are now overreacting to the impact

## Economics Notebook

By Lionel Barber in Brussels

of Denmark's rejection of the treaty. The aim, therefore, must be to restore market confidence in EMU - without necessarily shrinking the timetable for a common currency by the end of the century.

A second interpretation is that Mr Delors knows that Maastricht's goal of monetary union for the Twelve by the end of the century - never likely - now looks impossible. Sterling's withdrawal from the ERM accentuates the division of Europe into two tiers, a northern club and a less prosperous southern tier, including Italy, Greece, Portugal and Britain. Now this reality has sunk into the consciousness of markets, it makes a leap to monetary union more likely.

In Brussels, there is plenty of high-powered thinking about how to proceed, fast-forward, to EMU.

Mr Peter Ludlow, director of the Centre for European Policy Studies, describes a package deal, whereby "hard core" members of the EMS (Germany, France, Benelux, and possibly Denmark) agree to reduce or even eliminate the margins of fluctuation within the ERM. Decision-making on monetary policy could be more collective, with the door held open to other EC members. Lastly, the German authorities would agree to tighten fiscal policy to relieve pressure on

not decrease - in the second stage of EMU, before countries lock into fixed exchange rates. "The testing will never stop," he says. These make for strong technical arguments for accelerating moves toward EMU. The trick is to make the package politically saleable - not just to important southern states such as Italy who fear being left out, but also to Germany, where popular fears of abandoning the D-Mark appear to be increasing.

One suggestion is to create a European Central Bank on the lines of the Federal Reserve in the US. To guard against political interference, the "regional" heads of the central banks in France, Germany and Benelux would agree that all decisions on monetary policy would require unanimity. The Bundesbank could argue its independence was being protected, while offering a notional voice to the French. Majority voting might come later.

## Shell metals business to emphasise mining side

By Kenneth Gooding, Mining Correspondent

The Royal Dutch/Shell oil and gas group is to change the direction of its loss-making Billiton metals and mining business said Mr Paul Everard, an executive director of Billiton International Metals.

Billiton, based in the Netherlands, suffered \$12m net losses last year which deepened to more than \$35m in the first half of 1992.

Billiton is to place "a stronger focus" on its mining operations while the trading and marketing business would underpin mining.

Billiton recently closed tin smelters in the Netherlands and Ireland and has effectively put a "for sale" notice on most of its other downstream businesses. These include two in the UK: British Lead Mills and R J Enthoven, which between them account for about half the secondary lead production in the UK.

The group's TDF Tioxide titanium dioxide pigment company in the Netherlands is for sale, as is Billiton's 35 per cent stake in the Anglo-Irish alumina refinery in Ireland.

Mr Everard said even if the 50 per cent-owned Budel smelter in the Netherlands resolved environmental problems, its gas supply contract ended in 1999.

He said that Billiton was considering whether it should withdraw from ring-dealing membership of the London Metal Exchange and become an associate member instead. Associates had all the benefits of LME membership without taking the extra risk.

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## COMPANIES AND FINANCE

## Sphere raises \$4m and wins its independence

By Raymond Snoddy

SPHERE, the California video game company controlled by the late Robert Maxwell through a Liechtenstein charitable trust, has won its independence.

The fast-growing company that has produced games such as an F-16 flight simulator, has raised \$4m from new investors for additional marketing and development and buying out shares formerly held by Swico,

a charitable trust which was in effect its parent.

Earlier this year it emerged that Sphere, which trades under the name Spectrum HoloByte, appeared to be a private Maxwell company beyond the reach of Arthur Andersen, administrators to Mr Maxwell's private interests.

The negotiations over the future of Sphere have involved Arthur Andersen. As a result in return for the Swico shares \$2.3m was paid into an escrow

account and a further provision of \$4m in preferred shares set aside to cover any further unexpected liabilities.

Before the re-financing package was put together all Maxwell appointees to the company were removed.

Mr Gilman Louis, president and chief executive of Spectrum HoloByte, said: "This financing positions the company to work with our new partners in bringing products and technologies to the industry."

## Tepnel for USM with \$27.5m tag

By Peter Pearce

TEPNEI Diagnostics will join the USM on Wednesday through a placing of 4.58m ordinary shares at 120p to raise a net \$27.5m. At that price it is valued at \$27.5m.

A biotechnology company based at the University of Manchester Institute of Science and Technology, Tepnel has developed diagnostic testing systems where which are designed to "meet growing consumer and legislative demands" for detecting the presence of residual antibiotic or other contamination in foods and of viral and bacterial conditions in blood.

Mr Harold Morley, chairman and chief executive, said products were now at the point of commercial exploitation.

In food diagnostics, it developed the FARAS (Food Antibiotic Residue Analysis System) test which requires one test for 16 answers, rather than the current 16, first target to be addressed is the milk industry.

In medical diagnostics, a series of probes screen the particular DNA patterns of specific diseases. Here the National Blood Transfusion Service is the initial target.

The placing by Allied Provincial Securities, represents 30 per cent of Tepnel's enlarged share capital.

## Assurance for investors and creditors

Andrew Jack on auditors' involvement in half-yearly statements

Casual readers of at least two sets of half-year results released this month might easily have thought they had been given a sneak preview of the full-year figures six months too early.

The error would not have been caused by the size of the figures themselves, but by the fact that there was so much financial information available.

A growing number of companies are providing more detailed half-yearly information, with divisional or geographical breakdowns of profit, or information on their balance sheet.

But Guardian Royal Exchange, the insurance company, and Guinness, the drinks group, have gone several steps further. Their interim reports resemble more closely the financial statements in an annual report, even to the extent of including a statement from Price Waterhouse, auditor to both companies.

Their results for the first half of 1992 are presented with a profit and loss account, geographical breakdown, and also a full balance sheet.

In addition, both have a full cash flow statement in accordance with the new Financial Reporting Standard.

The figures presented in either case are unaudited. But they are accompanied by a letter from Price Waterhouse to

the directors of the company, which says the firm has "reviewed" the figures.

The PW report says the review was not conducted in accordance with auditing standards, and did not involve visiting operating locations or verifying assets and liabilities.

It principally meant understanding the process involved in preparing the financial information, applying analytical procedures to the data, and quizzing the management.

It concludes: "In our opinion, the half-yearly financial information has been prepared with due care and using accounting policies consistent with those adopted ... in the statutory financial statements for the year ended December 31 1991."

GRE states that it provided greater interim financial information in line with the recommendations of the Cadbury committee on corporate governance.

"We had done the work internally, and we were quite happy to take up the Cadbury suggestion," says Mr James Morley, finance director.

The statements were easy to assemble because GRE has long asked its auditor to conduct an interim review, discussing factors such as the financial information collected, technical issues and accounting policies adopted.

"We believe that having a half-year numbers review makes a lot of sense," says Mr

Morley. "You can get into very esoteric arguments about whether having a review saves costs at the year-end audit. But the costs are certainly justified by the benefits."

The same message comes from Mr Andrew Allner, financial controller at Guinness.

"We have taken a close interest in corporate governance and it came up in discussions with our auditors," he says.

It is no coincidence that both companies were audited by FW, Mr Garbham Ward, a partner in the firm has been among those in the profession actively supporting auditor scrutiny of both interim and preliminary announcements.

Mr Morley supports the idea of the PW comment. "It gives shareholders some anchors to what's been done. It is quite an important statement."

Mr Allner adds: "It gives the shareholders the feeling that the numbers have been reviewed by someone independent and objective. We think it's a good thing and would like to think other companies would do the same."

Mr Quentin Humberstone, the lead engagement partner at PW for GRE, says: "It seemed a logical extension that because we were doing the review, we should say something about it. We put our pen where our work was."

He says the firm took considerable time deciding on the

wording since there was no precedent and no guidelines. That same wording was mirrored in for Guinness.

He stresses that the PW comment is addressed to the directors, and offers none of the safeguards of the audit report in the annual accounts.

However, Mr Ward adds: "There may not be a legal obligation, but once our name is associated with the accounts, there is an implication that a degree of care has been taken. There is an assurance value."

At a time when both gearing and short-term cashflow are among the chief concerns of investors and creditors, it comes as no surprise that the extra balance sheet and cash flow information has been widely welcomed.

However, Mr Morley says that "interestingly" he has heard no comment on the auditor's statement. Perhaps that reflects uncertainty over what significance it really has. After all, without any mandatory requirement, it is unlikely that companies disagreeing with their auditors will publish it.

It also remains to be seen whether, if other companies follow the lead of GRE and Guinness, a comment without the legal obligations of a full audit will provide any reasonable guarantee that the interim accounts really represent a "true and fair" view of the financial position.

## MCC accountants on final chapter

By Andrew Jack

ACCOUNTANTS are nearing a final chapter in their disposal programmes of the assets in the Maxwell business network, more than ten months after they were first appointed.

Price Waterhouse has been handling the 400 companies - most of them non-trading - within Maxwell Communication Corporation. Realisations so far have totalled \$59m, including companies such as Panini, Nimbus, Macdonald, MBO and MCEP. Professional fees have totalled \$15m to date.

There have been no MCC realisations so far in the US, where the majority of the assets are. Mr Mark Homan,

one of the joint administrators, has said he wanted to avoid a fire sale; the businesses are also self-sufficient in cashflow and ahead of projections.

Accountants at Arthur Andersen are administrators to the private Maxwell business empire. This also includes about 400 companies, the vast majority being non-trading.

There were 56 trading businesses identified, of which 52 have been sold, generating \$110m. These include the European newspaper, AGB and some other market research companies. Income has been offset by \$2m in trading losses and costs, and estimated professional bills of \$11m.

Two businesses have been

closed, leaving one - British International Helicopters - to be sold, along with property assets and overseas investments, which should in total realise at least another \$50m.

The Office of Fair Trading has cleared the way for bids from four of the six serious contenders.

In addition, the firm still has to determine the point at which to sell the majority shareholding in Mirror Group Newspapers, but appears to be in no hurry to do so.

Mr John Talbot, head of insolvency at Andersen, said he is getting to the point of liquidating a number of the companies now held in administration.

## William Jacks back in black

FURTHER REDUCTIONS in operating costs and the benefits of the convertible preference rights issue a year ago enabled William Jacks, the motor dealer, to make a small profit in the half year ended July 31 1992.

It made a pre-tax profit of \$1,000, compared with losses of \$801,000 for the corresponding half year and with \$850,000 for the full year. The overall car market had not yet shown signs of real recovery, but the corporate sec-

tor had been "quite resilient" and certain franchises were benefiting from excellent new models, the company said.

First half turnover was held at \$21.2m. Operating surplus rose from \$136,000 to \$443,000, and interest charges were cut to \$442,000 (\$704,000). Losses per share, after preference dividend, were 0.96p (5.56p).

**F&C Pacific net asset value at 190.5p**

Net assets per share at the Foreign & Colonial Pacific Investment Trust fell from 228.3p to 190.5p basic over the 12 months to July 31. Allowing for the exercise of warrants the drop was from 216.6p to 181.8p. Net revenue for the half year

ended July slumped to \$533,000, against \$1.42m, for earnings per share of 0.5p (1.94p). The interim dividend is being maintained at 0.75p.

**NHL merges finance and treasury sides**

National Home Loans, the mortgage lender and consumer finance group, is to merge its treasury and finance operations under the control of Mr Nigel Terrington.

The merger reflects the reduced size of the company. Mr Terrington's appointment follows the resignation of Mr Tony Moir, a leading figure in the company since its establishment in 1986, as finance director.

In July NHL reported losses of \$35.9m after making bad debt provisions of \$79.4m, and passed its dividend.

Mr Jonathan Perry, chairman, denied that Mr Moir's departure was linked to a boardroom row. "It is arguable that there is not the necessity for both posts," he said.

**Ardagh tops £4m despite pressures**

Ardagh, the Dublin-based glass producer, made pre-tax profits of £4.21m, or £4.33m, in the 53 weeks ended June 30 1992.

That compared with £4.98m for the previous year, and the directors considered it satisfactory in the light of the pressures on volumes and margins.

Sales for the 53 weeks totalled £132.5m (£132.8m), while trading profit came through at £5.43m (£5.11m). Earnings per share were 11.15p (12.39p) and the final dividend is 2.39p for a total of 3.115p (3p).

**Airedale settles with former director**

Airedale, the holding company of Magnet, the kitchen retailer, has settled out of court a suit for wrongful dismissal brought three years ago by Mr Albert King, Magnet's former finance director. After the High Court ruled that he had carried out his duties without fault, he accepted a sum of \$850,000 including costs from Airedale.

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Notice is hereby given that for the interest period from 28 September 1992 to 29 March 1993 the rate of interest will be 3.7% per annum. The interest payable on 29 March 1993 will be YEN 187,056 per each YEN 10,000,000 Note.

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Floating Rate Notes due 1994

Interest Rate 5 1/4% p.a. (Minimum rate applicable according to condition interest (0.75% of the Terms and Conditions of the notes)

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US\$ 10,000 US\$ 296.88  
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Bank of Montreal Luxembourg  
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For the period 25th September, 1992 to 16th October, 1992 the Bonds will carry an Interest Rate of 1.825% per annum with an Interest Amount of U.S. \$36.50 per U.S. \$50,000 (the original Principal Amount) Bond, payable on 16th October, 1992. The Principal Amount of the Bonds outstanding is expected to be 22,161,219,074% the original Principal Amount of the Bonds, or U.S. \$11,080.61 per Bond until the seventeenth Payment Date.

Bankers Trust Company, London Agent Bank

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Guaranteed as to payment of principal and interest by The Daiwa Bank, Limited

Interest Period 25th September, 1992 to 25th March, 1993

Number of days 182 days

Interest Rate 3.9875% per annum

Coupon Amount of each Note U.S. \$2,015.40

The Daiwa Bank, Limited London Branch as Agent Bank

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USD 500,000,000  
Updated Subordinated Floating Rate Notes

Notice is hereby given that the rate of interest for the period from September 28th, 1992 to March 28th, 1993 has been fixed at 3.5125% per cent per annum. The coupon amount due for the period is USD 177.58 per USD 100,000 denomination and USD 1,775.78 per USD 100,000 denomination and is payable on the interest payment date March 28th, 1993.

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## COMPANIES AND FINANCE

## Sir Robert Jones barred from trading RJJ shares

By Terry Hall in Wellington

THE New Zealand high court has barred Sir Robert Jones, founder and former chairman of property group Robt. Jones Investments (RJI), from trading shares in the company.

This is the first time such an action has occurred in New Zealand, and follows an application by the country's securities commission.

The court prohibited RJI from registering transfers of shares held by Sir Robert or private companies he controls. Sir Robert recently said he held 13.82 per cent in the company.

The interim order, follows an earlier finding by the New Zealand Stock Exchange's market surveillance panel that the company failed to inform the market about share dealings during 1990 involving RJI, as well as its employee unit trust and Sir Robert's private interests.

Sir Robert said he was "delighted" the commission had acted. He accused the stock exchange of mounting a "kangaroo court" against him.

The high court injunction is the latest in a series of legal actions against RJI and Sir Robert who on September 18 resigned as chairman of the company he founded 10 years ago. It is now one of the biggest property investors in Australia and New Zealand with a portfolio of buildings worth \$251.66m (US\$99.6m).

Pay, Richwhite shareholders have voted overwhelmingly to accept the National Australia Bank's bid for their company's 26 per cent stake in the Bank of New Zealand.

NAB is offering 80 cents a share and 85 cents for each preference share. It is expected to confirm the offer this week.

## Power Financial sells HD Intl

POWER Financial, the financial services arm of the Desmarais family's Power Corp of Canada, is selling its 60 per cent interest in HD International, a London investment management company, to Credit Suisse Asset Management for an undisclosed sum, writes Robert Gibbons in Montreal.

PFC said it was withdrawing from European financial services operations where it does not have a dominant market share.

## Italian insurer prepares privatisation policy

Lorenzo Pallesi, chairman of Ina, tells Haig Simonian about plans for the state sell-off of his group

Topping virtually every list of Italian privatisation candidates is Istituto Nazionale delle Assicurazioni (Ina), one of the country's biggest and best known insurance companies.

Ina's main business is life insurance, in which it ranks second to Generali, Italy's biggest insurer, on a group basis, and counts as the largest operator as an individual company.

Through Assitalia, its quoted subsidiary, it also offers non-life policies, while it owns 20.25 per cent of Banca Nazionale del Lavoro (BNL), the big treasury-controlled bank, and 9.27 per cent of Istituto Mobiliare Italiano (IMI), the Rome-based financial services group.

Total premiums amounted to L5,400bn last year, with L2,300bn stemming from directly written life business and a similar amount from Assitalia, while net profits were L19.9bn.

Misunderstandings about premiums and earnings indicate how much preparatory work is necessary before Ina can sell its shares to the public. About L800bn of its total premiums stem from cessations under other life insurance companies, under a complex system dating back to Ina's foundation in 1912. Although conceived as a state monopoly, similar to those in tobacco and electricity generation, the idea never got off the ground.

After 1918, when big Trieste-based insurers such as Generali and Rinnione d'Adriatica di Sicurtà came under Italian sovereignty, a looser alternative was chosen.

In 1922, Mussolini imposed a sliding scale of quotas, obliging life insurers to cede part of their business to Ina. From 40 per cent of all premiums in the first decade, the quota fell in

GENERALI, Italy's biggest insurance company, raised parent company premiums by 9.2 per cent to L3,227.7bn in the year to July, writes Haig Simonian in Milan.

The rate of premium growth was half that in the corresponding period last year, with the fall stemming partly from the decision to weed out unprofitable business, while growth in life premiums remained "satisfactory".

Group premiums rose by 13.4 per cent to L7,256bn, net of exchange rate changes, while fully consolidated aggregate premiums rose by 15.3 per cent to L11,184bn.

The company forecast that underwriting income this year should improve from the difficulties of 1991. However, it warned that earnings, while likely to be affected by the economic problems facing many clients and volatile financial markets, would benefit from extraordinary gains, as in 1991.

stages to a permanent floor of 10 per cent after 30 years.

That system underscored Italian life insurance until just six years ago, when reforms were passed in line with planned European Community legislation, with compulsory transfers being phased out by 1994.

Mr Lorenzo Pallesi, Ina's chairman, explains: "The aim was to guarantee market stability and avoid damage to policyholders if a company collapsed. Although seeming unfair, the system was very attractive for all concerned."

The sliding scale closed the Italian market to new entrants, put off by the fact that they

would only receive premiums on 60 per cent of their business, while established rivals might already be down to the 10 per cent quota.

"It was cosy for everyone. The established companies kept out rivals, while Ina enjoyed guaranteed growth at market rates thanks to an automatic stream of business".

Changing the requirement to cede premiums to Ina will be one of the steps needed before privatisation. Mr Pallesi hopes Italian insurers will follow other European markets and opt for self-regulation.

Ina's earnings are also deceptive. Superficially, last year's figure seems paltry for a company of its size in a business where profitability is normally high for big, mature players.

However, the final result masks a variety of factors. Foremost is the L303bn paid in the special advance property tax, sprung on the industry last year. Rather than amortising the amount over three years, as permitted under law, Ina took the entire payment on its 1991 accounts.

Other factors explain the relatively modest net earnings of previous years. "The state never saw Ina as a source of income," says Mr Pallesi. "As a special form of state-owned company, it never had annual general meetings or even shareholders. And it never paid dividends."

As there was no need to distribute earnings - largely derived from tax-exempt government bonds - Ina traditionally shifted a large part of profits into reserves to minimise its tax bill. "Our solvency margin is between 4% and five times that required by law," he says.

Only when facing the property tax in 1991 did the group



Lorenzo Pallesi: aimed to guarantee market stability

refrain from ploughing money into special reserves.

The second factor affecting profits is Mr Pallesi's policy, introduced in early 1990, of redistributing earnings to policyholders. Last year, the company credited L155bn into policyholders' accounts, after L115bn in 1990.

So far, it is unique among Italian life insurers. Mr Pallesi explains the strategy in marketing terms. "Policyholders in the UK have many more rights than in Italy. The market there is much more transparent. I believe this will happen in Italy too, and we wanted to be the first."

Taken before redistribution and transfers to reserves, Ina's earnings have been consistently high. Last year, it made L460bn, a figure it hopes to repeat in 1992.

Ina's transformation into a joint stock company last month shows changes are

already on the way. With the new Italian government scrambling for income, Ina is no longer a special case but a vital source of funds for the Treasury, now its clearly defined shareholder.

While Ina looks set to pay the Treasury dividends this year, private investors may have a crack as early as 1993. Merchant banks have already submitted exhaustive privatisation schemes.

The most common involves the flotation of a "new" Ina, owned by the existing group. While the parent company will continue its special functions for the state, such as administering funds for insurance against organised crime and export credits, the "new" company will comprise the life insurance business and Ina's stake in Assitalia.

The principle is clear, even if the details still have to be worked out. "The question is

## Turin bank rises 22.8% in first six months

By Haig Simonian

ISTITUTO Bancario San Paolo di Torino, the big Italian bank which floated part of its shares this year, raised gross operating profits before provisions and depreciation by 22.8 per cent to L710bn in the first half of this year. The trend in earnings, which were ahead of budget, had continued into July and August, it said.

Loans rose by 11.5 per cent to L82,500bn, with the rate of growth partly held back by the bank on credit grounds. Deposits rose by almost 14 per cent to L104,500bn, with the biggest increase coming from the bank's domestic clients.

Stet, the stock market listed holding company for Italy's state-owned telecommunications activities, reported virtually static group pre-tax profits of L1,566bn in the first half to June, against L1,546bn a year earlier.

The result came in spite of a 12.5 per cent rise in turnover to L12,526bn. Mr Biagio Agnes, Stet's chairman, judged the results satisfactory, but warned of growing uncertainties owing to the troubled state of the Italian economy.

Stet made no profits forecast for the full year, but said that earnings should be in line with the net L1,413bn made in 1991. However, profits would be affected by the additional taxes and special measures planned under the government's severe 1993 budget.

The group predicted an 11 per cent rise in sales for the year and maintained investment spending, which amounted to L4,632bn in the first half.

## Dow move linking prices to DM 'sustains margins'

By Andrew Jack

DOW, the US chemical company which last week said it was formally linking its prices in Europe to the D-Mark, says customers will still be invoiced and be able to pay in their local currencies. Prices billed will be converted into the local currency at the D-Mark rate on the day orders are received or regular orders placed. The action will sustain margins during a period of exchange rate instability.

Mr Ferdinand Kaufmann, sales and commercial vice-president of Dow Europe, said: "Now

with the ERM uncertainty, we have to adjust these prices to restore the value of the D-Mark. We really need the D-Mark equivalent. We cannot live off the devalued rate."

Mr Michel Demaré, assistant treasurer, said that unless Dow formalised its D-Mark pricing policy, it would be sacrificing about 5 per cent on one-third of its revenues. A substantial proportion of its production costs are in D-Marks.

Four-fifths of the European company's trade is in ERM countries, with the remainder in Switzerland, Scandinavia, the Middle East and Africa.

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Fixed Interest Floating Rate

Notes Due 1998

Notice is hereby given that for the next interest period from 28th September, 1992 to 26th March, 1993 the Notes will bear interest at a rate of 7.23437% per annum. Interest payable on 26th March, 1993 will amount to Yen 359,709 per Yen 10,000,000 Note.

The Mitsubishi Bank, Limited  
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As Agent Bank

## ROYAL BANK OF CANADA

Dividend No. 421

NOTICE IS HEREBY GIVEN THAT a dividend of 29 cents per share upon the paid up common shares of this Bank has been declared payable for the current quarter at the Bank and its branches on and after November 24, 1992 to shareholders of record at close of business on October 28, 1992.

By order of the Board  
Jane E. Lawson  
Vice-President & Secretary

US \$200,000,000

BATIF

Guaranteed Floating Rate

Notes due 1996 with

Guaranteed Floor Warrants

For the period from September 28, 1992 to March 28, 1993 the Notes will carry an interest rate of 3 1/2% per annum with an interest amount of US \$183.26 per US \$100,000 Note.

The interest amount per Floor Warrant tranche A: US \$22.12

The interest amount per Floor Warrant tranche B: US \$15.80

The relevant interest payment date will be March 28, 1993.

Agent Bank  
Banque Paribas Luxembourg  
Société Anonyme



## INTERNATIONAL CAPITAL MARKETS

## UK GILTS

## Slope of yield curve makes a sudden reverse

COGNOSCENTI of the gilt-edged market have had to blink hard in the past two weeks, and not just because of the pound's dramatic exit from the European exchange rate mechanism.

Another factor making the period stand out is that the gilt yield curve, which has been downward sloping for virtually all the past 10 years, has changed suddenly to move upwards, as a result of altered expectations about interest rates and inflation.

Owners of short-dated bonds have seen the value of these financial assets appreciate significantly over the past two weeks, while long maturing bonds are now priced less attractively.

According to Mr Nigel Richardson at S.G. Warburg Securities, the trend should continue in the coming months, with the result that yields for long-dated bonds climb from around

9 per cent now to 10 per cent by autumn next year.

Behind such speculation is the changed perception about how UK economic policy will be managed. With the pound outside the ERM - and the UK government appearing to be in no hurry to seek re-entry - the central plank of the Treasury's economic strategy has been shattered.

Without a fixed exchange rate target, Britain is reasonably free to cut short-term interest rates with reference to little more than what seems justified by UK economic conditions.

The chances are that base rates, which Mr Norman Lamont, the chancellor, cut from 10 per cent to 9 per cent last week, will come down further to 8 per cent by the end of the year and perhaps 7 per cent by mid-1993. Such changes, so many industrialists and consumers hope, could stimulate a

recovery from the longest UK recession for 50 years.

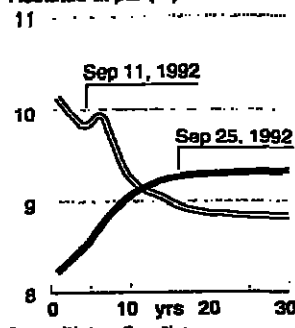
The reasoning about changes in base rates explains why yields on short-dated stock have come down. On Friday night the benchmark Treasury 8½ per cent bond maturing in 1997 had a yield of 8.38 per cent, nearly half a percentage point lower than the previous week.

Its price was quoted at 101½, more than 1½ points up compared with the previous Friday.

Long-dated bonds, meanwhile, saw a rise in yields of roughly 20 basis points (a fifth of a percentage point), with a corresponding decline in prices, because of worries that over the next few years inflationary impulses will be kept less in check, due to the absence of the ERM restraint. Another aspect that has changed the picture for gilt investors was the large Bank

## UK gilts yield

Restated at par (%)



Source: Warburg Securities

of England intervention on September 16 - Black Wednesday - in the UK's vain effort to prop up the pound. The £10bn to £15bn estimated to have been brought into the Treasury's coffers through the Bank's selling of D-Marks from its currency reserves for pounds will now count towards

the public sector borrowing requirement, reducing the need to issue gilts.

That means, according to gilt market estimates, that the government needs to issue only between £1bn and £5bn of gilts until the end of the financial year on March 30 in order to fully fund the PSBR, assuming this latter figure is about £35bn.

The Bank's strategy for the time being seems to be to concentrate on issuing index-linked gilts - it has sold £1.1bn of these bonds since the ERM suspension - because of theories that such bonds should prove attractive to investors in the event of a swelling in inflationary pressures.

The good news for gilt investors is that the lack of immediate need for the Bank to issue large volumes of new gilts to fund the 1993-1994 PSBR - although it still has to worry about the borrowing requirement for 1993-94, projected to be more than £40bn - should put a floor under gilt prices.

However, on the other hand the feeling that inflation could turn out to be a problem for the UK - if not in the immediate future, then in a year or so's time - could make some investors decide that gilts are no longer such a good bet as they have appeared in the past year, and switch more of their funds into equities or non-sterling denominated bonds instead.

Peter Marsh

## US MONEY AND CREDIT

## Attention on Wall Street returns to domestic outlook



Alan Greenspan: expected to look at another rate cut

WHILE currency chaos continues in a newly divided Europe, Wall Street has diverted its attention from the implications of Maastricht back to the domestic economic outlook and the presidential election.

These days only the most optimistic economists or spin doctors for the Bush re-election campaign dare to place much faith in a short-term US economic recovery.

"Bond investors are steeling themselves for a Clinton victory and assuming this will lead to the use of more fiscal tools to jump-start the US economy. Translated into bond terms, that implies higher bond yields and lower prices in the wake of a Clinton victory."

Early last week, US Treasury bond prices fell as a number of foreign central banks liquidated some of their US holdings in order to raise cash for more intervention in the foreign exchange market. However, by last Friday, the familiar flow of discouraging US macro-economic statistics triggered a rally once more, as speculation increased about the prospect of another ease in monetary policy by the Federal Reserve.

On Friday the Treasury bond market rallied on the back of bad economic news such as the Commerce Department announcing a drop in durable goods orders in August, the

third such drop in four months. Also influencing the market was a decline in personal income in August and a 3.2 per cent fall in sales of previously owned homes.

The price of the benchmark 30-year Treasury bond rose by 3½ of a point on Friday, with the yield down to 7.35 per cent, compared with 7.41 per cent last Thursday.

This week, the market will focus on the latest unemployment statistics, due on Friday. Depending on what the jobs data says, many traders expect Mr Alan Greenspan, chairman of the Fed, to look seriously at another cut in interest rates. This could bring the discount rate and Fed funds rate, now at 3 per cent, down to 2.50 per

cent and 2.75 per cent respectively.

An indicator that the Fed could be inclined to ease before the presidential election on November 3 seemed to come last week from pessimistic remarks made by Mr Wayne Angell, a Fed board member who has been more concerned about the return of inflation. It is striking how many serious bankers and economists still worry about the potential inflationary impact of a further rate cut when it seems apparent that the US and other western economies are hurtling through the most widespread deflationary cycle in years. But old anti-inflation prejudices take some time to vanquish, even if they now appear unrealistic.

A word about buying US Treasury bonds ahead of the presidential campaign. According to bond market watchers at Donaldson, Lufkin & Jenrette, the long end of the Treasury market is likely to be dominated over the next five weeks by the growing possibility that Mr Clinton will be elected. This could initially drive rates upward. The same concerns are being expressed at S.G. Warburg, where the view is that the five-year Treasury paper - rather than longer maturities - looks cheapest for the time being.

Alan Friedman

## EUROPEAN GOVERNMENT BONDS

## Prospect of mini-Emu sets markets buzzing

WILL a mini-Emu arise from the ashes of the Maastricht treaty?

Certainly the prospect of closer economic and monetary union (Emu) between the hard-core European currencies has set the bond markets buzzing, and some market participants now regard a two-speed Emu as an attractive route to follow.

The events of the last month have given the idea of a mini-Emu some currency. In the run-up to the French referendum on the Maastricht treaty, tensions within the exchange rate mechanism (ERM) of the European monetary system (EMS) led to a forced devaluation of the peseta, while both sterling and the lira pulled out and floated.

The turmoil continued last week after the French voted in favour of Maastricht - but with only a very slender majority for the Yes vote.

As the weaker European currencies came under renewed pressure, Spain, Portugal and Ireland tried to crush the speculators by introducing new controls on capital or by tightening existing ones. But the

French franc managed to survive the week, thanks to heavy intervention by both the Bank of France and the Bundesbank.

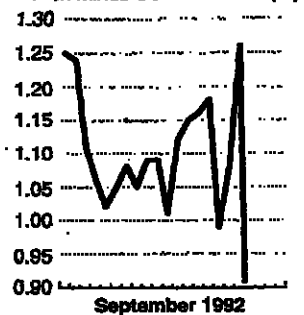
On Friday, Mr Alfons Verplaetse, the governor of the Belgian central bank, was quoted as saying that monetary union between the five hard-core European currencies could start immediately. According to Belgian radio, Mr Verplaetse said Germany, France and the Benelux countries - Belgium, the Netherlands and Luxembourg - were economically ready to start monetary union.

Ever since the Danes rejected the Maastricht treaty on June 2, investors have focused more closely on the D-Mark bloc and greatly reduced their exposure to high-yielding European bond markets such as Spain and Italy.

Before the Danish vote, the prospect of European economic and monetary union had convinced investors that they stood to make considerable gains as inflation and interest rates in Spain and Italy converged towards German levels. Denmark's rejection of Maastricht shattered investors' faith

## Yield spread

French minus German bonds (%)



Source: Datastream

in the convergence argument.

However, if a form of mini-Emu takes place now, investors in the hard-core European currencies should see convergence towards German yields in the bond markets. Mr George Magnus, economist at S.G. Warburg Securities, points out that the first step towards Emu would be a move towards much narrower fluctuations in the currencies.

"A necessary requirement is to fix even more strongly than before those currencies which are able to fix" he said. The

five countries involved would have to issue a statement of intent to lock their currencies more closely than before. "In effect, Germany, France and the Benelux countries could eventually hijack the single currency for themselves," he said.

Yield spreads over German bonds for the other hard-core members would narrow considerably. Traders pointed out that following Mr Verplaetse's comments on Friday, the 10-year French-German yield spread fell dramatically. With the formation of a mini-Emu, the spreads would fall further.

Mr Jeremy Hale, economist at Goldman Sachs, said: "If the separate currencies continued to exist but were irreversibly fixed, the risk premium in Dutch, French and Belgian bonds would disappear and the bond yields would converge."

However, he added that in practice, French, Dutch and Belgian bonds would probably carry a small residual risk premium reflecting worries that the union might fall apart.

Sara Webb

## SAINT-GOBAIN

## NET INCOME OF 135 BILLION FRENCH FRANCS FOR THE FIRST HALF YEAR 1992

Consolidated net income for the first half year 1992 amounts to FF 1,347 million against FF 1,221 million for the first half 1991 and FF 1,288 million for the second half 1991.

It is 10% higher than that of the first half 1991 and 4.6% higher than that for the second half 1991.

The key consolidated figures are as follows in millions of French Francs:

	FIRST HALF YEAR	
	1992	1991
• Sales	36,773	37,410
• Depreciation and other provisions	(2,842)	(2,651)
• Operating income	3,687	3,578
• Financial charges, net	(1,204)	(1,204)
• Reorganisation and other costs	(413)	(224)
• Income before tax and results of sales of non-current assets	2,334	2,256
• Results of sales of non-current assets	207	(51)
• Income tax	(385)	(748)
• Net income before minority interests	1,494	1,351
• Net income	1,347	1,221
• Resources from operations (cash flow)	4,141	3,947
• Capital expenditure on plant and equipment	2,145	2,268
• Acquisition of investments	1,093	1,311
• Net indebtedness	20,295	21,881

The Group's sales are up 3.6%, mainly because of the German company Oberland being consolidated in the Containers Division from September 1991. On a comparable structure basis in French Francs, they are 0.1% lower.

Hopes for a recovery that had been fuelled by some favorable signs during the first quarter of the year have not been fulfilled in the second quarter. The building and industrial equipment markets continue to suffer, thus leading to strong price pressures, added to that of a lower dollar exchange rate. However, the Pipe Division and Germany among the countries, have sales growth that are above inflation.

The Group again demonstrated its capacity to resist in these poor economic conditions, by maintaining its margins through cost cutting measures. After a significantly higher depreciation charge - FF 2,626 million against FF 2,304 million at June 30, 1991 - which does not compensate the small drop in the charge for provisions - FF 316 million against FF 347 million - operating income still represents 9.5% of sales and is up 3% on the first half of 1991.

Rationalisation measures currently under way have led to an increase in reorganisation costs. Dividend income from non-consolidated subsidiaries shows a slight decrease, and amounts to FF 264 million, compared to FF 299 million in the first half of 1991. The sale of non-current assets results in a profit of FF 207 million against a loss of FF 51 million for the first half of 1991. It includes capital gains on both the disposal of fixed assets and of investments, mainly treasury stock. The amortisation of goodwill is FF 168 million, against FF 141 million in the first half of 1991.

The analysis of results by industrial activity confirms the strong improvement of the Pipe Division, the stability of the Containers Division and the slight turnaround of Building Materials in North America and Brazil. The results of the Paper-Wood and Fibre Reinforcements Divisions are affected by decreases in selling prices, while those of the Ceramics business suffer from the lack-lustre industrial equipment market.

The review of results by geographical area shows that Germany continues to benefit from the dynamic forces resulting from its reunification, whereas the other European countries, including France, have suffered, at varying degrees, the effects of a deteriorating economic environment.

The results of the Americas have improved appreciably. In the United States, the Building Materials Division has refocused its market penetration actions, and in Brazil, vigorous measures have been taken, in order to adapt the industrial structures to the recession in various markets.

Cash flow amounts to FF 4,141 million and is up 7.6% against the first half of 1991. It is FF 900 million above the total of capital expenditures and investments in shares which are both lower.

Net indebtedness, which amounts to FF 20.3 billion at June 30, 1992, against FF 21.9 billion at June 30, 1991 and FF 20.5 billion at the end of 1991, continues to reduce. It represents 55% of shareholders' equity which totals FF 37 billion at June 30, 1992, against 62% at June 30, 1991 and 56% at the end of 1991.

Compagnie de Saint-Gobain, the parent company, recorded a trading profit of FF 854 million, compared to FF 710 million for the first half of 1991.

COMPAGNIE DE SAINT-GOBAIN  
INVESTOR RELATIONS DEPARTMENT  
TEL: (33) (1) 4262-43-14

FT/ISMA INTERNATIONAL BOND SERVICE									
U.S. DOLLAR STRAIGHT									
Issue	Price	Yield	Vol	Yield	Vol	Yield	Vol	Yield	Vol
10/15/92	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
10/20/92	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
10/25/92	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
10/30/92	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
10/31/92	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
11/01/92	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
11/05/92	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
11/10/92	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
11/15/92	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
11/20/92	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
11/25/92	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
11/30/92	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
12/01/92	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
12/05/92	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
12/10/92	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
12/15/92	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
12/20/92	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
12/25/92	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
12/30/92	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
12/31/92	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
1/01/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
1/05/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
1/10/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
1/15/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
1/20/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
1/25/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
1/30/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
1/31/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
2/01/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
2/05/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
2/10/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
2/15/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
2/20/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
2/25/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
2/28/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
2/29/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
2/30/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
2/31/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
3/01/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
3/05/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
3/10/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
3/15/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
3/20/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
3/25/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
3/30/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
3/31/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
4/01/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
4/05/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
4/10/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
4/15/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
4/20/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
4/25/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
4/30/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
4/31/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
5/01/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
5/05/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
5/10/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
5/15/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
5/20/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
5/25/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
5/30/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
5/31/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
6/01/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
6/05/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
6/10/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
6/15/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
6/20/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
6/25/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
6/30/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
6/31/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
7/01/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
7/05/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
7/10/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
7/15/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
7/20/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
7/25/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
7/30/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
7/31/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
8/01/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
8/05/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
8/10/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
8/15/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
8/20/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
8/25/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
8/30/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
8/31/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
9/01/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
9/05/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
9/10/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
9/15/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
9/20/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
9/25/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
9/30/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
9/31/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
10/01/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
10/05/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
10/10/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
10/15/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
10/20/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
10/25/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
10/30/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
10/31/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
11/01/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
11/05/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
11/10/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
11/15/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
11/20/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
11/25/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
11/30/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
12/01/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
12/05/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
12/10/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
12/15/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
12/20/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
12/25/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
12/30/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
12/31/93	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
1/01/94	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
1/05/94	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
1/10/94	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
1/15/94	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
1/20/94	101.10	7.35	100	101.10	7.35	100	101.10	7.35	100
1/25/94	101.10	7							



## INTERNATIONAL CAPITAL MARKETS

## DERIVATIVES

## Stiff test for the banks' risk management systems

THE past fortnight has provided a stiff test for the skills of banks active in the swaps and other derivatives markets.

Has the huge cost of systems in recent years - built both to manage risk and to make it possible to price complex financial instruments - been money well spent? The answer is "Not entirely".

The crisis in the European exchange rate mechanism has revealed some of the weaknesses in banks' risk management systems for two reasons.

First, computer models developed from historical data have in many cases been subjected to the most extreme market conditions they have yet had to face. What looks fine on the laboratory bench does not always work so well in practice.

"It was almost impossible to keep track with where you were," said an executive at one bank in London. "Any arbitrage opportunity, where you are talking about two or more instruments, became very difficult." The speed of events was one reason for this. Valuing derivatives portfolios takes considerable computing power. "The systems take a long

time to crank out the answers, and when they come, the market's changed," said this executive.

The scale of the volatility also made it difficult to keep up with events. Some banks discovered that the parameters built into their models simply were not broad enough to cope with events. "Any model can cope with 15 per cent interest rates. What no models can cope with is 1,000 per cent rates," said an executive at another bank.

The foreign exchange markets, which saw the most active trading, are immune from most of these problems. Dealers have less need for real-time information, since they do not face the same difficulty in marking their positions to market.

"In the heat of the moment you don't rely on the system to keep your position - you keep your own," said a risk management executive at National Westminster. It isn't possible to trade in derivative markets in the same way.

The second weakness in risk management that has been exposed in recent days has been lack of liquidity in some financial markets. Managing risk is only possible if there

are markets and instruments available in which those risks can effectively be laid off.

The sterling swap market, for example, was left high and dry on the day that the currency left the ERM as the money markets dried up. The lack of a liquid money market made it impossible to price a swap, or to value a sterling swap portfolio, making hedging equally impossible. It was a case of waiting for normal market conditions to return, and then hoping that your bank came out as one of the winners rather than one of the losers.

It was highly timely that the International Swap Dealers Association should have held a conference in London last Friday on risk management. Mr Michael May, head of derivatives marketing at Westpac, was one of several speakers to point to liquidity as an important concern. "Is anyone brave enough to say that the Ecu swap market will still be here in five years time?" The experience of recent days has given senior managers in some banks - and banking regulators - a taste of what extreme market conditions can do to financial institutions' risk

controls. The outcome was not catastrophic, but that may provide scant consolation if allegedly fool-proof systems failed to cope. It is all reminiscent of the 1987 stock market crash. Then, so-called "portfolio insurance" was meant to have eliminated the market risk from holding securities. In practice, such promises of risk-free investing proved unfounded.

One of the main things to come under scrutiny will be the volatility assumptions built into risk management systems for derivatives. These are built on historical data, which is used to project how instruments will trade under most circumstances. They do not pretend to cover all market conditions.

Most work on a "confidence level" of about 95 per cent. That is, they are based on the assumption that a particular instrument or market has traded within a certain range at least 95 per cent of the time in the past, and so can be expected to do so in the future.

The trouble is, "worst-case" situations can be devastating when they occur. Referring to the high confidence level used at Bankers Trust,

Ms Marion Robieson, head of product risk at Bankers Trust in New York, said at the Isda conference: "In practice, you almost never reach this level - except when you grossly exceed it."

How many senior bankers realise this - and are they happy to live with the consequences, given the enormous volatility in financial markets demonstrated recently?

Another risk management expert said: "Senior management have to accept that these are trading markets, and that not everything can be traded within a 95 per cent confidence level." It may be, though, that the experts have failed to get this message across.

There is certainly a lot of communicating that needs to be done in the coming weeks. As Mr John McCormick, head of Bank of America's financial engineering and risk management group in London, said: "Senior management will be asking, in the light of recent events, what we're doing here." He can be sure that Bank of America certainly will not be alone.

Richard Waters

Anthony Harris

## A German strategy for Britain



"THE more that he talked of his honour, the faster we counted the spoons." Which applies, rather obviously, to a British chancellor who talks of rigour the day after he cuts interest rates. This could only too obviously be where Mr Edward Heath came in. That is the future the markets are beginning to discount, and no reader needs advice on how to hedge. Stay short of sterling.

But suppose that it is different this time. Suppose that Mr Major, awakening from his fantasy of European leadership, and Mr Lamont, free from playing follow-my-leader, have learned from their experience. What reflections would guide a rational man after such a shock?

"We're on our own," might sum it up; but not in the smug John Bull sense Mr Lamont so successfully employed to rally his backbenchers. On our own in the sense that Britain has to establish its street credibility before it can join the fast-track group in Europe; not as a result of joining before we are ready. And on their own in the sense that they cannot lean on the advisers who got them into this mess. They must make their own policy from the ground up.

This is very difficult for men so comparatively young. They did not experience the significant past; they must read about it in books, and they do not have the time. (So if you find the potted version which follows convincing, clip it out and send it to them.)

The strategic aim need not be changed: Mr Major wants to out-German the Germans. He must hold on, though, to the new understanding of cause and effect which emerged in the economic debate. You do not get strength by suppressing inflation; you get a strong currency from having a strong economy, and low inflation follows. The re-emergence of this truth could be worth all the turmoil and humiliation, if we can hold on to it.

The two leaders of fast-track Europe ended the war devastated; both now have quite impressive economies (though the German record has been gravely blotted

since re-unification), but they chose opposite routes to get there. The French approach lay through a strong industrial policy - rather the Labour line. This produced much technological excitement, but a long string of disappointments and devaluations. In 1983, they moved over to the German track, and have been painfully converging ever since.

The German approach, as much forced on them by isolation as the market, inflation had left their currency as devastated as their cities, and much undervalued overseas after it was reformed. The only way to get rich was to earn foreign currency, legitimately or otherwise; and so began more than three decades of export-led growth. The mark rose with the trade surplus. This is also the strategy followed, sometimes accidentally, by Japan, Korea, and currently by China and most recently by Poland (with dawning success), and possibly Russia.

Britain now has an opportunity to follow these examples. The physical economy is not devastated, still under-sized; the country still needs a structural transformation. The psychic economy happily has been laid flat: union militancy and resistance to change went some years ago, and now we are drying out from our long addiction to borrowing. For Britain, as for the US, net exports are the only likely source of long-term dynamism.

The task is to revive the economy without reviving bad habits; in other words, to keep a highly competitive exchange rate while containing inflation, especially credit-led inflation. This approach might well appeal to the schoolmaster in Mr John Major - "if it isn't hurting, it isn't working". His anti-inflationary convictions are real; even, according to his officials, obsessive. Given time, the market could do the rest; and Mr Major has time. There are two problems. Mr Major is, for the time being, politically too weak; and sterling is still probably too strong to motivate a solid manufacturing revival. So even if you believe that we may have stumbled into the best-proved strategy for growth, the financial posture is the same: stay short of sterling. Not for ever, though.

## NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
<b>US DOLLARS</b>							
Shawna Sengco Co(a)(*)	180	1997	5	2.5	100	Nomura Int	2.500
Deutsche Bk.Fin.(c)(*)	150	2002	10	(c)	100	Deutsche Bk.	-
Toyo Suisan Kaisha(e)(*)	200	1996	4	1.75	100	Nikko Europe	1.750
Nikkodo Co.(f)(*)	40	1997	4.5	5.25	100	Nomura Int	5.249
Kingdom of Saudi	1.5bn	1989	7	8.5	98.96	M.Lynch/P Morgan	8.981
Republic of Austria(g)(*)	250	2002	10	(g)	100	UBS P&D Secs.	-
Republic of Austria(h)(*)	150	2002	10	(h)	100.25	UBS P&D Secs.	-
LKB Baden-Wuerttemberg(i)(*)	200	2002	10	(i)	98.75	CSFB	-
SNP(h)(*)	150	2002	10	(j)	100	CSFB	-
Rabobank (Nederland)(k)(*)	100	2002	10	(k)	100.12	UBS P&D Secs.	-
Banco Rio de la Platte(l)(*)	100	1997	5	9	98.529	Merrill Lynch Int.	9.375
Hyosung (America)(m)(*)	50	1995	3	(m)	100	KEB Int.	-
European Inv.Bank(s)(*)	400	2002	10	(n)	100.3	UBS P&D/Saloman	-
EBRD(n)(*)	150	2002	10	(n)	100.3	CSFB	-
Grupo Synrol(o)(*)	80	1995	3	8	100	Chase Inv.Bank	8.000
PT Indorayon(v)(*)	80	2002	5.5	10	100	Saloman Bros Int.	5.500
SCMT(y)(*)	1.25bn	1997	5	(y)	98.865	Goldman Sachs Int.	-
SCMT(z)(*)	80	1997	5	(z)	100	Goldman Sachs Int.	-
Bank Austria	150	1996	4	5.25	100.82	Swiss Bank Corp	5.019
Banco Holandes(B)(*)	75	1995	3	10	100.35	ABN AMRO	9.862
Banco Roberts(C)(*)	50	1995	3	8.75	100	Samuel Montagu	8.750
<b>CANADIAN DOLLARS</b>							
World Bank(D)(*)	100	1997	5	(D)	100	Wood Gundy Inc.	-
<b>YEN</b>							
Kobe Steel	20bn	2003	10.25	5.75	101.875	Yamaichi (Europe)	5.502
Kobe Steel	20bn	1998	5.25	5.2	101.75	Nikko Europe	4.811
Takashimaya Co.(f)	20bn	2001	8.25	5.6	101.75	Nomura Int.	5.350
Furukawa Co.(f)	15bn	2000	7.25	5.55	101.875	Nomura Int.	5.262
<b>GUILDERS</b>							
World Bank	750	1997	5	7.825	100.5	ABN AMRO	7.501
Kredietbank Int.Fin.(f)	150	1997	5	7.875	100.85	Rabobank Ned.	7.713
<b>D-MARKS</b>							
Kamijumi Co.(*)	300	1998	4	4.125	100	Nomura Bk(Deutsch.)	4.125
Sanden Corp(n)(*)	40	1987	5	(n)	100	Bayer. Vereinsbank	-

## How to spell Kyowa-Saitama in five letters: A-S-A-H-I

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LOS ANGELES • CHICAGO • CAYMAN • SAN FRANCISCO • MEXICO • SÃO PAULO  
HONG KONG • SINGAPORE • SEOUL • GUAM • BEIJING • QINGDAO  
FUZHOU • SHANGHAI • BANGKOK • KUALA LUMPUR • JAKARTA • SYDNEY

## NEW ISSUE

This announcement appears as a matter of record only.

September 1992



## The Export-Import Bank of Japan

(Incorporated under The Export-Import Bank of Japan Law)

### Canadian \$350,000,000

### 7% per cent. Guaranteed Bonds Due 2002

unconditionally and irrevocably guaranteed  
as to payment of principal and interest by

## Japan

### Swiss Bank Corporation

Goldman Sachs International Limited

Merrill Lynch International Limited

Paribas Capital Markets Group

Bank of Tokyo Capital Markets Group

Daiwa Europe Limited

Lehman Brothers International

Mitsubishi Finance International plc

Morgan Stanley International

UBS Phillips & Drew Securities Limited

IBJ International plc

Nomura International

Woody Gundy Inc.

Credit Suisse First Boston Limited

Deutsche Bank AG London

LTCB International Limited

J.P. Morgan Securities Ltd.

ScotiaMcLeod Inc.

S.G. Warburg Securities



Swiss Bank Corporation

Schweizerischer Bankverein

Société de Banque Suisse



## WORLD STOCK MARKETS

1992

High

Low

September 25

Price

BS.

2,090

1,550

Austrian Airlines

1,990

597

354

Euro-Loosland Pl

422

906

555

Alitalia

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EVN

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Price	2,415.10	74.4	- 1 1/2	New High	46	44	29
				New Low	35	34	45

<b>CANADA</b>	Sep 25	Sep 24	Sep 23	Sep 22	1982		
					HIGH	LOW	
Metals & Minerals	2895.67	2922.04	2914.57	2909.21	3238.87	3141.0	3241.0
Composite	3385.49	3410.61	3404.40	3402.88	3646.00	3515.10	3646.00
<b>ONTARIO</b>	1750.97	1768.82	1770.34	1766.48	1932.59	1814.0	1932.59

Basic values of all indices are 100 except NYSE All Common - 50, Standard and Poor's - 10, and Toronto Composite and Metals - 1000. Toronto indices based 1973 and Montreal Portfolio 4/1/83. \* Excluding bonds 1 Industrial, plus Utilities, Financial and Transportation, 1d Closed, 1d Unavailable. # The DJ Ind. Index Unavailable day's Highs and lows are the averages of the highest and lowest prices reached during the day by each stock, whereas the actual day's Highs and lows (quoted by Tridax) represent the highest and lowest values that the index has reached during the day. † The figures in brackets are previous day's.

<b>JOE Industrial (29/9/78)</b>	4201.65	4188.10	4182.00	4174.00	4687.85	4490.00	4687.85
<b>SOUTH KOREA*</b>							
Korea Comp Ex. (14/1/80)	525.57	523.35	524.35	519.16	691.48	682.00	691.48
<b>SPAIN</b>							
Madrid SE (20/12/80)	199.77	198.15	205.22	207.36	266.51	268.00	266.51
<b>SWEDEN</b>							
All Sweden Gen (1/2/79)	697.9	708.9	709.2	726.0	1014.50	1013.0	1014.50
<b>SWITZERLAND</b>							
Swiss Bank Ind. (11/12/78)	863.8	863.8	864.6	863.9	983.48	978.00	983.48
Swi. General (11/6/77)	645.4	647.6	648.9	645.7	682.30	677.00	682.30
<b>TAIWAN*</b>							
Weighted Price (20/1/81)	3472.50	3548.48	3559.42	3524.75	3791.63	3700.00	3791.63
<b>THAILAND</b>							
Bank. SET (20/1/79)	859.17	863.81	871.37	863.42	871.37	823.00	871.37
<b>WORLD</b>							
U.S. Capital Ind. (1/12/79) (3)	584.0*	585.9	582.6	584.0	542.80	577.00	542.80
<b>East Asia Ind. (20/1/80)</b>	862.13	891.72	850.87	866.80	978.55	925.00	978.55
<b>East Top-100 (20/1/80)</b>	862.13	891.72	850.87	866.80	978.55	925.00	978.55

\* September 1979. † 15. Taiwan: Australia Price: 3569.75, Korea Comp Ex. 540.25.  
 # Subject to official recalculation. \* Calculated at 15.00 GMT.  
 Basic values of all indices are 100 except Australia Trade, 95.20, NZS Gen., 100 Gen., East Top-100, 1000 Gen. and DJ Ind. - 255.7, JSE 50 Index - 254.3 and Australia All Ordinaries see listing - 500.00 Closed, 1d Unavailable.

<b>TOKYO - Most Active Stocks</b>						
Friday, September 25, 1982						
	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices
Minor Min & Sml	33.9m	519	-4	Nikkon Chem	4.8m	971
Nippon Mining	14.2m	618	+10	Sanyo Comm	4.1m	578
Iwama Corp	13.5m	124	-14	Tokyo Corp	4.0m	887
Sunshine Chem	9.7m	481	+2	Crest Crown	3.8m	1071
Tokuma Co Ltd	8.5m	1,180	+40	NKK	3.7m	275



● Unit Trust prices are available from FT Cityline, call 0891 43 + the five-digit code listed after the unit trusts. Calls charged at 36p/minute cheap rate and 48p/minute at all other times.

**Guide to pricing of Authorised Unit Trusts**  
Compiled with the assistance of Lautro §§



● Unit Trust prices are available from FT Cityline, call 0891 43 + the five-digit code listed after the unit trusts. Calls charged at 36p/minute cheap rate and 48p/minute at all other times.

هكذا على الرصيف



● Unit Trust prices are available from FT Cityline, call 0891 43 + the five-digit code listed after the unit trusts. Calls charged at 36p/minute cheap rate and 48p/minute at all other times

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● Unit Trust prices are available from FT Cityline, call 0891 43 + the five-digit code listed after the unit trusts. Calls charged at 36p/minute cheap rate and 48p/minute at all other times

هكذا عن الرسل



## CURRENCIES, MONEY AND CAPITAL MARKETS

## FOREIGN EXCHANGES AND MONEY MARKETS

## Move to hard core

TRADING in European currencies this week will probably be dominated by the debate over whether a hard core of currencies can now be formed around the French franc and the D-Mark, writes James Bütz.

French franc, the Dutch Guilder and the Belgian franc. According to Mr Gerard Lyons, chief economist at DKB International in London, the ERM system needs a credible realignment to survive the present crisis.

UK clearing bank has leading rate 9 per cent from September 22, 1992

By the end of last week, the Bundesbank and the Bank of France seemed close to winning their fight to avoid a devaluation of the French franc. Some dealers still believe that there could be renewed pressure on the franc if the Bundesbank does not cut interest rates again at its council meeting this week. But, by Friday night, the franc had touched FF3.38 to the D-Mark, an important psychological break-through. The question now is whether France and Germany will forge a harder currency bloc composed of the D-Mark, the

There could be an argument for conducting such a realignment now. If the D-Mark and the franc are seen to realign upwards against the weaker currencies in the system, the pressure may be taken off the French currency once-and-for-all. Such a move, however, could put new strains on the lira and sterling, which were recently suspended from the system.

## POUND SPOT - FORWARD AGAINST THE POUND

Day's	Close	One month	Three months	Six months	One year
25	1.7125	1.7125	1.7125	1.7125	1.7125
26	1.7125	1.7125	1.7125	1.7125	1.7125
27	1.7125	1.7125	1.7125	1.7125	1.7125
28	1.7125	1.7125	1.7125	1.7125	1.7125
29	1.7125	1.7125	1.7125	1.7125	1.7125
30	1.7125	1.7125	1.7125	1.7125	1.7125
1	1.7125	1.7125	1.7125	1.7125	1.7125
2	1.7125	1.7125	1.7125	1.7125	1.7125
3	1.7125	1.7125	1.7125	1.7125	1.7125
4	1.7125	1.7125	1.7125	1.7125	1.7125
5	1.7125	1.7125	1.7125	1.7125	1.7125
6	1.7125	1.7125	1.7125	1.7125	1.7125
7	1.7125	1.7125	1.7125	1.7125	1.7125
8	1.7125	1.7125	1.7125	1.7125	1.7125
9	1.7125	1.7125	1.7125	1.7125	1.7125
10	1.7125	1.7125	1.7125	1.7125	1.7125
11	1.7125	1.7125	1.7125	1.7125	1.7125
12	1.7125	1.7125	1.7125	1.7125	1.7125
13	1.7125	1.7125	1.7125	1.7125	1.7125
14	1.7125	1.7125	1.7125	1.7125	1.7125
15	1.7125	1.7125	1.7125	1.7125	1.7125
16	1.7125	1.7125	1.7125	1.7125	1.7125
17	1.7125	1.7125	1.7125	1.7125	1.7125
18	1.7125	1.7125	1.7125	1.7125	1.7125
19	1.7125	1.7125	1.7125	1.7125	1.7125
20	1.7125	1.7125	1.7125	1.7125	1.7125
21	1.7125	1.7125	1.7125	1.7125	1.7125
22	1.7125	1.7125	1.7125	1.7125	1.7125
23	1.7125	1.7125	1.7125	1.7125	1.7125
24	1.7125	1.7125	1.7125	1.7125	1.7125
25	1.7125	1.7125	1.7125	1.7125	1.7125

## DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Day's	Close	One month	Three months	Six months	One year
25	1.7125	1.7125	1.7125	1.7125	1.7125
26	1.7125	1.7125	1.7125	1.7125	1.7125
27	1.7125	1.7125	1.7125	1.7125	1.7125
28	1.7125	1.7125	1.7125	1.7125	1.7125
29	1.7125	1.7125	1.7125	1.7125	1.7125
30	1.7125	1.7125	1.7125	1.7125	1.7125
1	1.7125	1.7125	1.7125	1.7125	1.7125
2	1.7125	1.7125	1.7125	1.7125	1.7125
3	1.7125	1.7125	1.7125	1.7125	1.7125
4	1.7125	1.7125	1.7125	1.7125	1.7125
5	1.7125	1.7125	1.7125	1.7125	1.7125
6	1.7125	1.7125	1.7125	1.7125	1.7125
7	1.7125	1.7125	1.7125	1.7125	1.7125
8	1.7125	1.7125	1.7125	1.7125	1.7125
9	1.7125	1.7125	1.7125	1.7125	1.7125
10	1.7125	1.7125	1.7125	1.7125	1.7125
11	1.7125	1.7125	1.7125	1.7125	1.7125
12	1.7125	1.7125	1.7125	1.7125	1.7125
13	1.7125	1.7125	1.7125	1.7125	1.7125
14	1.7125	1.7125	1.7125	1.7125	1.7125
15	1.7125	1.7125	1.7125	1.7125	1.7125
16	1.7125	1.7125	1.7125	1.7125	1.7125
17	1.7125	1.7125	1.7125	1.7125	1.7125
18	1.7125	1.7125	1.7125	1.7125	1.7125
19	1.7125	1.7125	1.7125	1.7125	1.7125
20	1.7125	1.7125	1.7125	1.7125	1.7125
21	1.7125	1.7125	1.7125	1.7125	1.7125
22	1.7125	1.7125	1.7125	1.7125	1.7125
23	1.7125	1.7125	1.7125	1.7125	1.7125
24	1.7125	1.7125	1.7125	1.7125	1.7125
25	1.7125	1.7125	1.7125	1.7125	1.7125

## EXCHANGE CROSS RATES

Day's	Close	One month	Three months	Six months	One year
25	1.7125	1.7125	1.7125	1.7125	1.7125
26	1.7125	1.7125	1.7125	1.7125	1.7125
27	1.7125	1.7125	1.7125	1.7125	1.7125
28	1.7125	1.7125	1.7125	1.7125	1.7125
29	1.7125	1.7125	1.7125	1.7125	1.7125
30	1.7125	1.7125	1.7125	1.7125	1.7125
1	1.7125	1.7125	1.7125	1.7125	1.7125
2	1.7125	1.7125	1.7125	1.7125	1.7125
3	1.7125	1.7125	1.7125	1.7125	1.7125
4	1.7125	1.7125	1.7125	1.7125	1.7125
5	1.7125	1.7125	1.7125	1.7125	1.7125
6	1.7125	1.7125	1.7125	1.7125	1.7125
7	1.7125	1.7125	1.7125	1.7125	1.7125
8	1.7125	1.7125	1.7125	1.7125	1.7125
9	1.7125	1.7125	1.7125	1.7125	1.7125
10	1.7125	1.7125	1.7125	1.7125	1.7125
11	1.7125	1.7125	1.7125	1.7125	1.7125
12	1.7125	1.7125	1.7125	1.7125	1.7125
13	1.7125	1.7125	1.7125	1.7125	1.7125
14	1.7125	1.7125	1.7125	1.7125	1.7125
15	1.7125	1.7125	1.7125	1.7125	1.7125
16	1.7125	1.7125	1.7125	1.7125	1.7125
17	1.7125	1.7125	1.7125	1.7125	1.7125
18	1.7125	1.7125	1.7125	1.7125	1.7125
19	1.7125	1.7125	1.7125	1.7125	1.7125
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21	1.7125	1.7125	1.7125	1.7125	1.7125
22	1.7125	1.7125	1.7125	1.7125	1.7125
23	1.7125	1.7125	1.7125	1.7125	1.7125
24	1.7125	1.7125	1.7125	1.7125	1.7125
25	1.7125	1.7125	1.7125	1.7125	1.7125

## EURO-CURRENCY INTEREST RATES

Day's	Close	One month	Three months	Six months	One year
25	1.7125	1.7125	1.7125	1.7125	1.7125
26	1.7125	1.7125	1.7125	1.7125	1.7125
27	1.7125	1.7125	1.7125	1.7125	1.7125
28	1.7125	1.7125	1.7125	1.7125	1.7125
29	1.7125	1.7125	1.7125	1.7125	1.7125
30	1.7125	1.7125	1.7125	1.7125	1.7125
1	1.7125	1.7125	1.7125	1.7125	1.7125
2	1.7125	1.7125	1.7125	1.7125	1.7125
3	1.7125	1.7125	1.7125	1.7125	1.7125
4	1.7125	1.7125	1.7125	1.7125	1.7125
5	1.7125	1.7125	1.7125	1.7125	1.7125
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7	1.7125	1.7125	1.7125	1.7125	1.7125
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## FT LONDON INTERBANK FIXING

Day's	Close	One month	Three months	Six months	One year
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## MONEY RATES

NEW YORK		Treasury Bills and Bonds				
1pm		One month	3.02	Three year	4.25	
		Two month	2.92	Five year	5.13	
		Three month	2.87	Seven year	5.42	
Prime rate	5 1/8	Six month	2.82	10 year	5.75	
Broker's call rate	5 1/4	One year	3.04	30 year	6.35	
100-day T-bill	3 3/4	Two year	3.79			
Govt. bonds at intervention...						
Sep. 25	Overlook	One	Two	Three	Six Months	Longbond



**LONDON SHARE SERVICE****INVESTMENT TRUSTS - Cont.**

كذا عن الزهري



**MEDIA - Cont.**

	Notes	Price	Wh's
40181 Haves...		438	11.1
40182 Haves...		438	11.1
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Aspen Comm.	5	123al	0.8
Ass. Brs. Cncls.	43		

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550	Staircase Energy	101	7.1
549	W-Teredo Petlm	13	8.3
551	Total B FFr	\$28 5/8	4.0

19	25.8	2.6	Mar	Oct	248	2295	Leslie
					890	2311	Ulsie

[illegible]

Windon Diamond	13		
7 June	41½	28 6	

[illegible]

Portland	41	138rd	53	2.2
Pittard Garner	79	-25	1.1	

[illegible]

South New Crl.	100	13.8
Cv Pl.	67	1.5
*Sterling Trust	97H	

0	-	-	-	989 3759	
7	1.5	2.8	Jan	25 11 2000	WA
6	-	-	-	1189 3859	

[illegible]

Shipping rates are shown. Prices and net weights otherwise indicated.

[illegible]

Bookers Spc Cv Pl	74	—	8.9
El. Techs. Inds	83	-1 1	7.9
Warrants	9 1/4	-7 1	—

Melroe		17		
McMurry States		32	87	3.0%
Pendragon	†	2168	89	6.8%
Terry Corp.		198	27	9.9%
Wachovia Corp.	†	713	0.9	3.9%
Washington M E		808	7.4	2.9%
WTAM	\$	152	34	10.8%
WTLS Bangor	N	132		0.5%
WTVoco	♦	194		1.9%
111 pc Ln '88		1760		0.11%
Hardy (Reg)		114	27	4.0%
Wahconago GM	E-115		-6.9	0.22%
John D Sfr	C27		-10.4	0.02%

7 1/2 p CV No 1	191	-15	71
Bismar-Toll FL	Σ127	123	04
28 Benz	102nd	74	
28 Benz and 102nd	102nd	82	

2.0	3.3	Jan	Nov	27.4	2818	
2.25	3.2	Nov	May	~2932		Far W
2.63	1.9	Oct	Jan	13.7	4727	Blywood
						Buttles

13.0	2.5	Jan Oct	21.9	4538	Deelka
10.4%	-	Apr Oct	21.9	4537	Doom
-	-	-	-	3057	Doom
7.8	2.0	May Nov	27.4	3184	Doom
7.2	2.0	May Nov	27.4	2163	Elm
4.77	4.6	Jan Dec	6	4112	Harber
7.5	-	Nov May	21.9	5173	Koor
3.75	2.0	Feb Sep	-	2324	South
4.5	-	May	27.4	3212	Vast
7.1	2.2	Jan Aug	1.5	3232	Wesler
18.0	2.6	Apr Oct	21.9	3259	Wesler
6.0	1.0	Jan Dec	11.5	3424	Zandpa

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10. *Journal of the American Statistical Association*, 1991, 86, 1001-1011.



## MONDAY INTERVIEW

## Monetarist with a mission

Patrick Minford, the Liverpool University economist, talks to Peter Marsh

Mr Norman Lamont has not had much time for day dreams recently. But in any moments of reflection during the sterling crisis and its aftermath, swimming before the glazed eyes of the UK chancellor may well have appeared the craggy, combative features of Professor Patrick Minford.

If Mr Lamont has appeared to be playing a Macbeth-like role, fighting a losing battle against the powerful forces pulling the pound down, then Prof Minford has also played an important part as the leader of the wily, regent, the Scottish regent, with warnings of toil and trouble ahead.

For the past two years, the vociferous Liverpool University economist has been stirring his cauldron of ideas, cooking up a stream of rebukes and irreverent comments which have conspired to irritate the UK chancellor.

Prof Minford was one of the first UK economists to warn of a long recession. And as the best-known member of the so-called Liverpool Six group of monetarist economists, he has not been shy about repeating his view that membership of the European Monetary System's exchange rate mechanism spelt disaster for Britain.

Long disregarded by the mainstream in the Conservative party as a heretic, Prof Minford is closely identified with the free-market views of Lady Thatcher, the former prime minister, whom he served as an informal economics adviser during the early 1980s. He is dismissive of many of the new generation of Tory leaders, who he reckons have gone soft on public spending and abandoned sound methods of running the economy based on monetary targeting.

But with Mr Lamont having been forced to suspend monetary conditions, and chronic foreign exchange crises requiring interest rate surges.

In terms of forecasts Prof Minford, even though he was no more prescient than most other UK economists in warning of the late 1980s inflationary boom, has judged the length and depth of the current recession much better than most of his colleagues. In May last year, when the Treasury was talking optimistically about growth of around 2.5 per cent for 1992, he said the econ-

As befits his academic status, the Professor is keen to expound on a spectrum of issues. He offers outspoken views on a range of subjects from Victorian workhouses - which he thinks were "very enlightened for a time" and which could be revived today as part of a plan to cut public spending on welfare - to the populist Sun newspaper, an organ which he admires for its free-market views.

Such opinions have given the professor a reputation as a kind of economics rotweiler. However, he has a large fan club, including people on both the right and left of politics.

Although the professor - whose thick black-rimmed spectacles and bubbling manner give him the air of a 1980s rocket scientist - has a reputation for irreverence and confessions to a lack of tact, he delivers most of his comments with a smile and no little charm.

He even shows a few mild signs of pleasure, welcoming last week's 1 percentage point cut in UK interest rates to 9 per cent. But to speed the UK's recovery from the longest peacetime recession since the 1930s, Prof Minford thinks Mr Lamont could go much further, bringing credit rates down to about 5 per cent and jettisoning any effort to peg the pound to the D-Mark.

"From now on the exchange rate should be viewed simply as a market price - no more important than the price of cocoa. We shouldn't spend any more time worrying about it."

As for his thoughts about Britain's decision nearly two years ago to enter the ERM, no one can complain that the professor has lacked consistency. As early as March 1988, Prof Minford wrote that for the UK to join the ERM would "expose the economy to great risk" due to a "too sudden transfer to German monetary conditions".

That meeting was one of the few occasions in recent years when Prof Minford has had high-level discussions inside the Treasury - an organisation for which he worked for three years in the early 1970s and for which he now has immense scorn for "making a complete cobbler" of the UK economy since the late 1980s. Yet his real battle is not just



'I like to rock the boat'

omy would expand by a meagre 0.1 per cent during that year. That may not have been pessimistic enough. The latest forecasts, outlined last month in a Treasury compilation of private-sector projections, suggest the economy will shrink by about 0.6 per cent this year after a 2.4 per cent drop last year. But the professor was widely considered at the time as a doomseer.

Indeed last summer, Mr Lamont took the opportunity to tell

## PERSONAL FILE

1943 Born, Shrewsbury. Educated at Winchester College, Balliol and London School of Economics.  
1966 Economic assistant, Ministry of Overseas Development, London.  
1967 Economist, Ministry of Finance, Malawi.  
1970 Economist, Courtauld.  
1971 Joined Treasury, initially as economist and then as member of Washington delegation.  
1974 Visiting fellow, Manchester University.  
1975 Editor of National Institute of Economic and Social Research quarterly review.  
1976 Professor of applied economics at Liverpool University.

the Liverpool academic so to his face, during a frosty confrontation with Prof Minford in the chancellor's office at the Treasury.

That meeting was one of the few occasions in recent years when Prof Minford has had high-level discussions inside the Treasury - an organisation for which he worked for three years in the early 1970s and for which he now has immense scorn for "making a complete cobbler" of the UK economy since the late 1980s. Yet his real battle is not just

with Treasury mandarins, whom he says are too remote from the outside world and are unnecessarily secretive, but the whole of what he dubs Britain's intellectual establishment. By this Prof Minford means people disposed to "consensus building" and government intervention.

He says he has in mind people such as Mr Sarah Hoag (head of the Downing Street policy unit), Mr Howard Davies (director general of the Confederation of British Industry) and Mr Michael Heseltine (the president of the Board of Trade).

How did Prof Minford come to dislike the establishment so much? He had a comfortable background (his father was a diplomat and the young Minford went to Winchester College and then Balliol College, Oxford). Perhaps an early hint of rebellion was the 13-year-old Minford's school speech during the 1956 Suez crisis, in which he argued, against the conventional line of the time, that British military intervention was unjustified. "I was destined to be part of the establishment," he says. "Things just didn't turn out this way."

A big factor tipping him away from conventional thinking was his 1970s research in economics. The research was conducted at the Treasury (which he eventually left because he "got fed up with sitting on committees rather than doing research") and then at a series of academic institutes leading up to Liverpool, where he has been since 1976. His studies led Prof Minford to propose his own brand of economic theory, based on "rational expectations". That boils down to saying that everyone involved in economic activity - be they currency dealers, companies or consumers - makes intelligent assumptions on the basis of available infor-

mation about how factors such as inflation will change in the future, rather than slavishly following trends that are guided simply by what happened in the past.

Prof Minford combined this theory with firm views on monitoring the money supply as a way of controlling inflation, in contrast to the then-Keynesian orthodoxy of using fiscal policy to manage demand. Both ideas fitted in with the market-based thinking of Tory leaders including Mrs Thatcher, whom he first got to know at a dinner in 1978, a year before she took over as prime minister.

In the aftermath of Mr Lamont's humiliating climb-down over the ERM, he has received no phone calls from the Treasury asking for advice. The mere suggestion seems so incongruous to the Minford mind that it makes him shout with laughter. "I am not really considered sound. I like the individualistic way of doing things. I like to rock the boat."

## The twilight of foreign aid

The news that Sweden is to cut its foreign aid budget sharply is, in its way, almost as richly symbolic as the crumbling of the Berlin Wall.

The fall of the wall symbolised the collapse of communism and a radical change in relations between the rich capitalist democracies and the centrally planned eastern bloc. The paring of the aid budget in a nation long renowned for its exceptional generosity symbolises a waning global commitment to aid and the beginning of a shift in relations between advanced countries and the other main component of the global order that emerged after the second world war: the third world.

Aid fatigue was palpable at last week's annual IMF/World Bank meeting. The bank is seeking donations for a new cycle of lending by the International Development Association (IDA), its concessional finance affiliate. It had hoped for a substantial increase in resources to reflect the needs of nine newly eligible countries (including some former Soviet republics) and the cost of environmental pledges made at the Rio earth summit. But Mr Lewis Preston, the bank's president, left in sombre mood, wondering whether even the \$18bn needed to maintain the current volume of loans would be forthcoming.

Foot-dragging on IDA is part of a broader retreat from a postwar consensus that rich countries had a duty to help the poor. Aid flows have stagnated for a decade despite substantial growth of real output. Only five of the 30 richest countries have achieved the United Nations target of development assistance equivalent to 0.7 per cent of gross domestic product. The ratios in the US and Britain are far below target, at about 0.2-0.3 per cent of GDP. In the richest 30 countries military spending is about 11 times greater than foreign aid.

The retrenchment partly reflects severe budgetary strains in developed countries. But the origins run far deeper.



MICHAEL PROWE on America

Nobody should be surprised that the pressure to cut aid budgets has emerged so soon after the absorption of communist countries into the capitalist order.

The two trends are not unrelated. Harry Truman, the architect of the US "containment of communism" strategy, also laid the foundations for an unprecedented expansion of official aid programmes. From a US vantage point, one of the main goals of overseas assistance was always to help prevent the spread of communism. Now that we are (almost) all capitalists, the geopolitical case for aid has vanished.

Shifts in the intellectual climate have also played a role. Prominent critics of aid in the 1960s and 1970s, such as the British economist, the now Lord Peter Bauer, are still out of the mainstream. But their arguments are no longer quite so controversial.

Aid has a somewhat devalued status: most economists now accept that the creation of markets and the lowering of barriers to trade and foreign investment are likely to play a bigger role in long-term development than official assistance.

The risks attached to aid programmes are also better understood. Aid is always support for particular governments rather than for poor people: if governments are corrupt or inefficient, aid will achieve little.

Aid flows, moreover, while small in absolute terms, are often large relative to the tax resources of third-world governments. By increasing the public sector's political power,

they may sometimes inhibit the emergence of a free market and trade relationships.

The heavy post-1945 expansion of foreign aid paralleled the growth of welfare states in advanced countries. Now both are in retreat. Welfare is often attacked for fostering "dependency". The power of this movement in the US is evident in the reformist stance adopted by Mr Bill Clinton, the Democratic presidential candidate. Mr Clinton argues that welfare has to be seen as a "second chance", rather than a way of life, and promises to stop welfare cheques after two years if recipients do not accept training or jobs. In the US, at least, foreign aid is perceived in a similar light: it makes sense as an emergency response to disasters but not as a permanent crutch.

The anti-aid arguments are often wrong-headed. But they show that aid fatigue is a reaction to deep currents in contemporary life as much as to temporary budget constraints. When Sweden embraces the market and takes an axe to its own government, it cannot be expected to leave its aid budget untouched. Other converts to the market feel the same way.

This climate of opinion presents a quandary for the World Bank and other providers of well-managed programmes that offer real benefits for developing countries. If the politics of welfare spending is any guide, the best way to rekindle enthusiasm for aid is to convince donors that it will produce lasting changes in behaviour.

The only reliable way is to impose tougher forms of conditionality: aid has to be tied more directly to domestic reforms by recipients, including, for example, the shift of resources from military to social budgets. Such reforms may help convince sceptics that aid will not be wasted; but with the post-cold war world being rebuilt on market principles, the going is likely to be tough.

## Revival of trust in the law

No opening of the law year in recent times has been so revealing - a significant facelift in the composition of the English judiciary as the one that begins on Thursday. The recent double replacement of the Lord Chief Justice of England and the Master of the Rolls - the two highest offices in the Supreme Court of Justice - conveys the impression of a new judicial broom sweeping through the dusty corridors of the Royal Courts of Justice in the Strand, sufficient to restore public confidence in the administration of both criminal and civil justice.

The arrival this year of four new Law Lords - enhancing the calibre and liberal disposition of the final court of appeal - has made necessary a number of replacements in and additions to the Court of Appeal. This reflects a distinct break with the past, improving the prospects of sensible and sustained legal reforms, and raising hopes that the esteem in which the public has hitherto held its senior judges will be restored.

The postwar period of civil jurisdiction was dominated in the public mind by Lord Denning, now 93. Appointed a High Court judge in 1944 and promoted to the Court of Appeal in 1953, he became a Law Lord in 1957. He returned to the Court of Appeal in 1982 as Master of the Rolls, where he dominated the court scene for the next 20 years.

It was an idiosyncratic domination, reflected in his large output of judgments (he never allowed either of the two appellant judges to deliver the first judgment of the court). Lord



JUSTINIAN

Denning asserted the need for judges to be creative, to shape the law. For him, the doctrine of precedent was an obstacle that should be brushed aside if he believed the previous case-law stood in the way of individual or social justice.

The difficulty with Lord Denning was his strong personal opinions, especially his moralistic attitude to the family and sex, and his overt hostility to trade unions and to some elements of society. It was a remark in 1983 in one of his autobiographical books that led to his undoing. He made a racist comment about the composition of a jury in a case arising out of riots in Bristol. He had to apologise, the passage in the book was withdrawn, and he bowed out, the last of the octogenarians on the bench.

However Lord Denning's judicial brethren may have chafed under such a maverick influence, he held sway by the sheer force of his genial disposition and masterly court-craft. His literary style, moreover, was attractive to the newspaper-reading public, so he was easily seen as the embodiment of British justice.

Only the House of Lords in

the 1960s and 1970s, under the leadership of the greatest of our postwar judges, Lord Reid, kept English law on the smooth path of legal development. Public law owes much more to the creativity of Lord Reid than to the variable decisions emanating from Lord Denning. The mantle of Lord Reid now falls appropriately on the recently reconstructed House of Lords.

Following Lord Denning, Lord Donaldson's decade at the helm of civil justice has been quietly remarkable. The parous administration of the Court of Appeal's workload during Lord Denning's period has been largely rectified. The Court has been transformed from a one-judge band with two judicial bookends, to a core of four judges, with the Master of the Rolls as a team of 27 Lord Justices contributing to more stable, if unexciting, jurisprudence.

Lord Donaldson, who formally retires on Wednesday, admits that he would have liked to have handed over to his successor, Lord Justice Bingham, in a tidier state. But he recognises that necessary reforms must be seen through by a new Master of the Rolls. He himself would have had to retire in the middle of such reforms. Lord Justice Bingham's appointment brings to the office a jurist of the highest quality, something that has to some extent been missing from civil justice.

The criminal appellate court has had a battering in recent years, more the result of fundamental defects in the system than in its executives. Criminal appeals immediately after the war occupied little more

than a day a week for the Lord Chief Justice and two puisne judges - today three divisions of the court sit regularly.

In the 1950s Lord Goddard, a proponent of capital and corporal punishment, was out of tune with postwar Britain. His successor in 1958, Lord Parker, was the reverse. An outstanding and progressive lawyer, he began to shape the growing criminal jurisdiction with efficiency. In 1971, Lord Widgery, who was capable of absorbing complex material and delivering off-the-cuff judgments with astonishing speed, nevertheless barely disguised his distaste for this class of judicial work. (His prime expertise was in the field of planning law, intellectually far removed from rape and robbery.)

By contrast, Lord Lane who retired this April, understood the world of criminality and was an outstanding Lord Chief Justice, despite popular belief to the contrary. His failing was to retain an Olympian aloofness, which let him down badly during media criticism over a spate of miscarriages of justice. Already his successor, Lord Taylor, has made a favourable public impression through his obvious readiness to be open about the job of Lord Chief Justice.

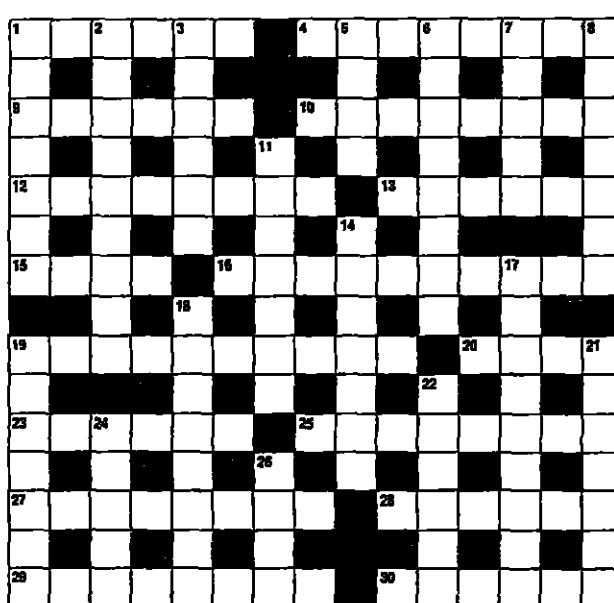
If we do not now begin to see a marked difference in legal approach and in judicial attitude and style to contemporary legal problems, it will be astonishing. Come the 21st century, English law should have recovered its prestige, and should sit fittingly alongside the civilian systems of the rest of the European Community.

Louis Blom-Cooper QC

## JOTTER PAD

## CROSSWORD

No.7.962 Set by DANTE



- ACROSS
- 1 A head with totally unsatisfactory delivery (2,4)
  - 4 Way to serve potatoes, just stuffed with game (3)
  - 9 Song and dance announcement (6)
  - 10 Student's ill-gotten gain (6)
  - 12 Pat his arm in error (8)
  - 13 One can't do more than this (6)
  - 15 Marxist lark perhaps (4)
  - 16 A prison-camp child growing up (10)
  - 19 To lead on is wrong, causing great distress (10)
  - 20 As one's written repeatedly, she was revered (4)
  - 23 Unusual statue, showing ingenuity (5)
  - 25 Branch of mathematics that may appear grey to me (8)
  - 27 Branch is not on fire (3-5)
  - 28 Food in hand (6)
  - 29 Said to be celebrated (6)
  - 30 Run out of clothes (6)
- DOWN
- 1 Club which may improve the flow of writing (7)
  - 2 Game bird is all ruffled (6)
  - 3 Distike having to change a hotel (6)
  - 5 A drug addict, perhaps, makes sure (4)
  - 6 What was left of woman's sex appeal years after (8)
  - 7 Prepared to fight (3-4)
  - 8 Give claim to name (7)
  - 11 Such a noted work can go on so long (7)
  - 14 We do turn out after all - it's not forbidden (7)
  - 17 Never satisfied, Titania's changed direction (9)
  - 18 Artisan whose work caused feathers to fly (8)
  - 19 Game in which Diana and Jack have nothing on, look! (7)
  - 21 A heavenly spree? (7)
  - 22 Great influence of one politician on some legislation (6)
  - 24 Shift resolution shown in disputes (5)
  - 26 Child has a point to convey (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday October 10.

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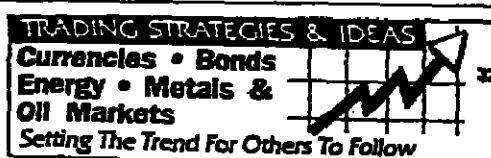
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